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HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

STANDING COMMITTEE

ON

TRANSPORT AND COMMUNICATIONS

Chairman: Mr. JOSEPH MACALUSO

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 16-29

1966-67

FRIDAY, MAY 27, 1966

Respecting

The subject-matter of the adequacy of the present program and future plans for passenger service on the lines of the Canadian Pacific Railway.

WITNESS:

Mr. J. J. Frawley, Special Counsel for the Government
of the Province of Alberta.

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HOUSE OF COMMONS
First Session—Twenty-second Parliament
1966

STANDING COMMITTEE
ON
TRANSPORT AND COMMUNICATIONS

Chairman: Mr. Joseph Macaluso

Vice-Chairman: Mr. H. Pit Lessard

and Messrs.

Andras,
Ballard,
Bell (*Saint John-
Albert*),
¹⁷Boulanger,
Byrne,
Cantelon,
¹⁸Caron,
Carter,

Fawcett,
Horner (*Acadia*),
Howe (*Wellington-
Huron*),
Hymmen,
MacEwan,
¹⁹McWilliam,
²⁰O'Keefe,
Olson,

Pascoe,
Reid,
Rock,
Saltsman,
Sherman,
Southam,
²¹Thomas (*Maisonneuve-
22 Rosemont*)—(25).

(Quorum 13)

Maxime Guitard,
Clerk of the Committee.

¹⁷Mrs. Rideout replaced Mr. Boulanger on May 25, 1966.

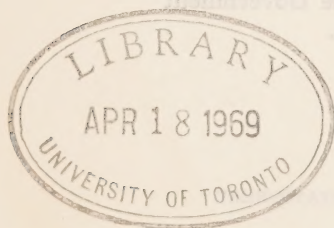
¹⁸Mr. Deachman replaced Mr. Caron on May 25, 1966.

¹⁹Mr. Allmand replaced Mr. McWilliam on May 25, 1966.

²⁰Mr. Tolmie replaced Mr. O'Keefe on May 25, 1966.

²¹Mr. Blouin replaced Mr. Thomas (*Maisonneuve-Rosemont*) on May 25, 1966.

²²Mr. Thomas (*Maisonneuve-Rosemont*) replaced Mr. Blouin on May 25, 1966.



MINUTES OF PROCEEDINGS

ORDERS OF REFERENCE

WEDNESDAY, May 25, 1966.

Ordered,—That the names of Mrs. Rideout and Messrs. Allmand, Blouin, Deachman and Tolmie be substituted for those of Messrs. Thomas (*Maisonneuve-Rosemont*), Boulanger, Caron, McWilliam and O'Keefe on the Standing Committee on Transport and Communications.

Ordered,—That the name of Mr. Thomas (*Maisonneuve-Rosemont*) be substituted for that of Mr. Blouin on the Standing Committee on Transport and Communications.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House.

MINUTES OF PROCEEDINGS

FRIDAY, May 27, 1966.
(30)

The Standing Committee on Transport and Communications met at 9:50 o'clock a.m. this day. The Vice-Chairman, Mr. Lessard, presided.

Members present: Messrs. Allmand, Byrne, Cantelon, Carter, Deachman, Fawcett, Horner (*Acadia*), Hymmen, Lessard, Olson, Pascoe, Reid, Rock, Saltsman, Southam, Thomas (*Maisonneuve-Rosemont*)—(16).

Also present: Mr. Orlikow.

In attendance: Mr. J. J. Frawley, Special Counsel for the Government of the Province of Alberta.

The Committee resumed its consideration of the subject-matter of the adequacy of the present program and future plans for passenger service on the lines of the Canadian Pacific Railway.

The Vice-Chairman opened the meeting.

On motion of Mr. Rock, seconded by Mr. Reid,

Resolved unanimously,—That a representative of United Aircraft of Canada Limited be called before this Committee.

The Vice-Chairman then invited Mr. Frawley to read his brief. Mr. Frawley's examination was commenced. Since the examination of the witness could not be completed on account of the fact that the Committee had not been granted leave to sit while the House is sitting and because the bells rang to announce the opening of the House, on motion of Mr. Olson, seconded by Mr. Cantelon, it was

Resolved unanimously,—That Mr. Frawley be recalled at 11:00 o'clock a.m. on Tuesday, May 31, 1966.

At 11:00 o'clock a.m. this day, the Committee adjourned until 11:00 o'clock a.m. on Tuesday, May 31, 1966.

Maxime Guitard,
Clerk of the Committee.

EVIDENCE

(Recorded and Transcribed by Electronic Apparatus)

FRIDAY, May 27, 1966.

● (9.40 a.m.)

The VICE-CHAIRMAN: Gentlemen, I see a quorum. We have a brief this morning from the special counsel for the government of Alberta and without delay I would invite Mr. Frawley to come forward to read the brief.

Mr. ROCK: Before we proceed with the reading of this brief I would like to make a motion, if possible, because I have to make up a quorum in the Veterans Affairs Committee. I would like to make a motion to invite representatives of United Aircraft to appear before the committee. I was asked before by the Chairman to make contact with this people—this was about two months ago—and they said they would be pleased to come, if they were invited. I think it is of the utmost importance to invite these people. They have created this new fast train, and I think the CNR have just issued a \$10 million contract for five trains for their run between Toronto and Montreal. I think it would be of interest to this committee to know more about the technical know-how and we can do that by getting information from those people. I would like a seconder for my motion.

The VICE-CHAIRMAN: We will take careful note of your request.

Mr. ROCK: I believe, Mr. Chairman, it takes a motion to invite them, so I would like to make a motion to that effect, if I have a seconder.

Mr. REID: I second the motion.

Motion agreed to.

Mr. JAMES JOSEPH FRAWLEY, counsel for the government of Alberta: Mr. Chairman, I presume, in line with custom, I should state my name. My name is James Joseph Frawley. I reside in Ottawa, where I have been for some years counsel for the government of Alberta. I am a member of the legal staff of the province of Alberta. If it is the wish of the committee I will read the brief through. It is not very long and perhaps that might be the most expeditious way of disposing of it.

The Province of Alberta has filed an appeal under Section 53 of the Railway Act against the judgment of the Board of Transport Commissioners which, in effect, confirmed the action of the Canadian Pacific Railway in discontinuing the "Dominion", one of its two transcontinental trains. Our appeal seeks the restoration of the second transcontinental train and contains observations and submissions of a general character concerning the position of the Canadian Pacific in the matter of passenger service. In line with the Terms of Reference of this Committee, this statement will be directed to a brief discussion of the general subject of the present and future plans of the railway for passenger service and its obligations with regard thereto.

It may be difficult to avoid some reference to the particular matter of the "Dominion", which is the subject of our appeal to the Governor General in Council, but I desire to assure the Committee, as I have done, of the objective of this statement.

Our first proposition is that the proof offered to the Transport Board in reduction or discontinuance cares to establish that passenger service is a deficit operation is inadequate.

The Railway makes the assumption that it is allowable, in applications to reduce or discontinue passenger service to treat the passenger service as a separate operation in so far as revenues and costs are concerned. In our view this is an unacceptable assumption.

During the 12 years of freight rate increase cases—from 1946 to 1958—the Canadian Pacific included what was called passenger deficit as an item of expense charged against freight revenues as part of its evidence to establish the need for an increase in freight rates. The provinces consistently protested. The board consistently approved the practice. In those years, the cost of operating passenger trains and services was determined by the application of a portion of joint freight and passenger costs upon an arbitrary allocation basis.

In the "Dominion" case, Canadian Pacific introduced the "regression analysis" technique into its costing procedures to establish that the train was operating at a loss. "Regression analysis" was used—for the first time in transportation costing, so far as we are aware—in the investigation by the MacPherson Royal Commission into the cost of moving grain to export positions.

The Canadian Pacific presented to the MacPherson Commission an out-of-pocket loss of \$17 million for 1958, the study year. Cost analysis retained by Manitoba and Alberta challenged those results and in their counter-analysis found an excess of half a million dollars of revenues over out-of-pocket costs. The Commission staff apparently was more persuaded by the cost opinions and findings of the Manitoba-Alberta analysts because the Commission Report sets the 1958 Canadian Pacific export grain carrying result not at minus \$17 million, not at plus \$500,000 but at minus \$2 million.

These results are brought to the attention of the Committee to indicate that sophisticated costing techniques put forward by quite competent cost analysts can be seriously impaired when subjected to critical attack by equally competent experts called in the opposite interest. If the costs put forward to show a deficit position for the "Dominion" were subject to a critical counter-analysis, as was done in the case of the Crowsnest grain, the result in our view would have been a different one.

It is true that the staff of the Board of Transport Commissioners critically examines the cost figures submitted by the Railway and did so in this case. But quite obviously the Board's staff are not "in opposite interest". It is our view that in proceedings as important as the case of the "Dominion" the "opposite interest" must be represented and facilities made available which would insure a critical analysis not only of the railway costing procedures but of railway practice generally. Such evidence would be presented to the regulatory tribunal by cost experts and other experts retained to represent the users of the utility. The Committee might find it profitable to examine the

practice before the Interstate Commerce Commission and the Federal Power Commission in the United States.

Our appeal to the Governor General in Council calls attention to what we regard as some important infirmities in the cost evidence presented to the Transport Board but as we appreciate the situation, the Committee is more concerned with the general policy and attitude of Canadian Pacific toward passenger service and this Statement will address itself to that position.

If, upon adequate evidence of passenger train earnings and passenger train costs—after both have been thoroughly scrutinized by the kind of examination which the movement of Crowsnest grain received at the hands of the Manitoba-Alberta analysts in the MacPherson Royal Commission—it should be established that Canadian Pacific passenger operations are deficit, other important considerations arise which, in our respectful submission, this Committee must review. I refer to such matters as: unilateral reduction in service; increases in fares; attitude of Canadian Pacific and its senior officers toward passenger business; the nature and extent of Canadian Pacific's contractual obligation to carry on passenger services.

The loss in the earnings of the "Dominion" was the direct consequence of "downgrading" the train from a fully-equipped transcontinental train to a "train" consisting of an engine and two day coaches. The complete elimination of sleeping car service and meal service made the so-called train highly unattractive to any but short haul day-time passengers. The inevitable consequence of this unilateral action was a serious reduction in earnings. We say those losses were self-inflicted. It is the Committee's responsibility to make a determination.

As a foot note to the foregoing comment the Committee may wish to consider whether the Railway Act should be amended to require that a railway must obtain the prior approval of the Board to a reduction in passenger train service. Section 168 of the Railway Act reads as follows:

The company may abandon the operation of any line of railway with the approval of the Board, and no company shall abandon the operation of any line of railway without such approval.

The section does not require the prior approval of the Board where the railway discontinues passenger services in whole or in part. And associated with that observation, we query whether the Board under the provisions of Section 315 should not have made enquiry upon its own initiative as to the justification of the yearly reduction in service to which the "Dominion" was subjected commencing in 1960.

The Committee has been told about the increases in the Canadian Pacific fare structure. We will do no more than set down these random examples:

Calgary-Edmonton:

Canadian Pacific—\$9.70 (increased on August 1, 1965 from \$7.40)

Canadian National—\$4.60

Fort William-Winnipeg:

Canadian Pacific—\$16.50

Canadian National—\$9.00

Toronto-London:

Canadian Pacific—(\$5.75 (increased on August 1, 1965 from \$4.40)

Canadian National—\$2.90

The policy and program of Canadian Pacific in the matter of passenger services is to be seen in the evidence given by Canadian Pacific senior officers in the hearings of the Transport Board in the "Dominion" case.

The first is Mr. Warren, General Passenger Traffic Manager who, at page 5423 of the transcript, told the Board that if, as, and when the "Dominion" were discontinued, the so-called "tours" business from the United States would be turned over to the Canadian National at Winnipeg.

And secondly, Mr. Emerson, the late President, at page 4940 in answer to a suggestion that the Board would soon be asked to approve discontinuance of the "Canadian" replied that Canadian Pacific was not "planning on it this year". When it was pointed out, page 4940, that the "Canadian" was losing "somewhat more" than six or seven million dollars a year Mr. Emerson commented: "One step at a time. We will solve one problem at a time".

We desire to bring to the Committee's attention the policy and program of Canadian National Railways in the matter of passenger service. So as not to extend this statement unduly, we would merely refer to two obvious considerations in that regard: Canadian National's advertising campaign; and reduced fares structure.

It was suggested in evidence before the Board that Canadian National is "not...so concerned with the result" (as Canadian Pacific) (page 4926). That is to imply that because Canadian National is financed by the national treasury, its officers are not greatly concerned whether its passenger operation is profitable or unprofitable. Alberta does not accept that implication. On the contrary, it is our view that the policy of Canadian National is founded upon the belief of management that profitable passenger business can be attracted if service is improved, not downgraded; fares are reduced, not increased; and an intensive and continuous advertising campaign is undertaken.

An interesting inter-departmental comparison is the attitude of Canadian Pacific toward competition in freight service. When competing forms of transport threaten freight revenues, does Canadian Pacific abandon the traffic or downgrade the service to make it even more vulnerable to highway transport or air cargo? On the contrary, bold, imaginative techniques are adopted to hold or regain the traffic. Piggyback, widespread use of agreed charges, and all the other devices initiated by ingenious freight traffic officers are put into effect. The healthy state of Canadian Pacific's freight revenues indicates the dividends paid by aggressiveness. Alberta refuses to believe that the Canadian Pacific could not successfully operate a second fully-equipped transcontinental passenger train. We respectfully suggest that the Committee examine, among other things, the respective advertising budgets of Canadian Pacific and Canadian National passenger departments.

Now I turn to the Agreement of 1880. Alberta suggests that it is of the greatest importance that the Committee examine the contract made by Canada with Canadian Pacific in 1880 and confirmed by the statute, Chapter 1 of the Statutes of Canada, 1881. The core of the contract cannot be more concisely

described than it was in this passage from the remarks of Mr. Crump to the annual meeting of the Company on May 4th of this year:

On his return, Sir John resumed negotiations with Stephen and his associates and finally, on October 21, 1880, a contract was signed. Under that contract, the line was to be built entirely in Canada and was to be completed by May 1, 1891; the government was to build the portions from Port Moody to Kamloops and from Fort William to Winnipeg, and, on completion, these portions were to be turned over to the Company; the Company itself was to build the portions from Lake Nipissing to Fort William and from Winnipeg to Kamloops; a land grant of 25 million acres and \$25 million in cash were to be made as consideration for the assumption by Stephen and his associates of full responsibility for building the line and operating it in perpetuity.

● (10.08 a.m.)

The actual words of the undertaking to operate the railway in perpetuity are these concluding words in paragraph 7 of the Agreement:

And the Company shall thereafter and forever efficiently maintain, work and run the Canadian Pacific Railway.

That obligation remains effective today over and above the obligations imposed by section 315 of the Railway Act—the accommodations section. That the covenants entered into the Special Act of 1881 were not superseded by the enactment of Section 315 of the Railway Act in 1903 is clear from the decision of the Supreme Court of Canada in the case known as *Re Crowsnest Pass Rates*, 1925 Supreme Court Reports, page 155.

It is Alberta's submission to this Committee that the words "forever efficiently" have a very real meaning in the context of the discontinuance of the "Dominion" and of the Canadian Pacific's policy generally in the matter of passenger service. It is Alberta's view that it is a breach of the 1880 covenant for the Canadian Pacific to now seek to divest itself of one of its two transcontinental trains. It is our submission that the covenant "to forever efficiently maintain, work and run" is not limited to and applicable only to a passenger operation which makes a contribution over variable costs. We agree with the following observation of the Board of Transport Commissioners in the decision in the "Dominion" case:

The efficient operation of the railway called for by the 1880 contract is not necessarily synonymous with profitable operation of each and every train or service. (Page 78)

If, as Canadian Pacific seems to assert, the 1880 covenant was limited to an operation which makes a contribution over and above variable costs, then we ask: how great or how small a contribution? Put in other terms: does the covenant of 1880 disappear and no longer be binding upon one of the parties as soon as passenger revenues fall below variable or out-of-pocket costs? If so, how far below? And is that to come about without the consent of the other party, the Government of Canada, and after that party had discharged fully its covenant to give title to—Now, there is a sad mistake here in the brief, gentlemen. It is not 2,000 miles but 656 miles of government-constructed railway plus 25,000,000 acres of land and \$25 million.

In Alberta's view, such questions must be answered in the negative. The people of Canada through the Government of Canada have performed their part of the 1880 contract. The Canadian Pacific must continue to perform its part.

The Canadian Pacific Railway as one entire corporate entity covenanted to operate the railway in perpetuity. That entire corporate entity is not in a deficit position. On the contrary, the entire corporate operation is a highly profitable operation. If passenger service is unprofitable—and we have taken the position that such unprofitability has not been adequately proved—then the corporation as a whole should absorb the deficit.

I referred a moment ago to the profitability of the Canadian Pacific Railway. And it is a fine thing for Canada that Canadian Pacific is so efficiently managed that there is a profit. In any analysis of Canadian Pacific account must be taken of the phenomenal growth of its wholly-owned subsidiary, Canadian Pacific Investments. That Company was incorporated under the federal Companies Act on July 9th, 1962 to carry on the business of an investment and holding company. The success it has enjoyed is disclosed in the recently published Annual Report of the Canadian Pacific Railway.

It is Alberta's respectful submission to this Committee that the Committee must examine:

- (a) the covenant of the 1880 agreement.
- (b) the railway grants and the land and money grants conveyed by that document, and
- (c) the present day defeatist attitude of the Canadian Pacific toward passenger services,

all in the context of the new Canadian Pacific Railway of the Sixties, the industrial and investment complex into which it has been transformed by Canadian Pacific Investments. In this regard two questions might be asked:

(1) Does Canadian Pacific seek to rid itself of passenger deficits so that through Canadian Pacific Investments the dollars saved can be turned into dividend-paying interests in enterprises totally unrelated to rail and to the covenant of 1880?

(2) Is the Canadian Pacific's new structure consistent with the obligations it assumed when Parliament gave it 650 miles of railway, \$25 millions and 25 million acres of land in return for a covenant to forever run the railway?

It is the submission of Alberta that the cost of passenger service must be assessed against the total corporation. The total corporation—the Canadian Pacific Railway—has no corporate deficit. If the "deficit" is absorbed by the total corporate operation, the deficit disappears. The case for discontinuance of passenger service disappears.

To sum up, it is our submission that: (a) if the division of total rail costs into freight and passenger services were subjected to the kind of intensive, critical analysis by "opposite interest" cost experts which the carriage of export grain received in the MacPherson Royal Commission; and (b) if Canadian Pacific aggressively sought passenger business as Canadian National does, any

unfavourable difference between passenger revenues and properly allocated passenger costs would be reduced to manageable proportions if it did not disappear entirely.

Our further submission is that the obligation of Canadian Pacific under the 1880 covenant made statutory in 1881 extends to the operation of two transcontinental passenger trains.

And it is our further submission that if notwithstanding the intensive critical examination of costs of the kind we have indicated and if notwithstanding the most aggressive program to attract transcontinental traffic, a deficit operation results, then the two-train transcontinental service should be maintained and the deficit absorbed by the corporation as a whole. We regard it as an incongruity that a corporation as wealthy as the last Annual Report discloses Canadian Pacific Railway to be should be permitted to abandon essential passenger services on the ground that the statistically-segregated passenger department is unprofitable.

This is dated at Ottawa this 18th day of May, 1966, and signed by myself.

Now, might I just call the Committee's attention to one thing to complete what I have said. In other hearings at which I was present I recall questions from the committee asking for a statement as to how much government aid the Canadian Pacific receives. Now I came across something which I just want to call to the committee's attention. It is very short and I thought afterward that I perhaps might have very well reproduced it. I would be very glad to do that and just file it as an appendix to my statement. It is to be found on page 16 of the Report of the Royal Commission on Railways and Transportation in Canada in 1917, commonly known as the Drayton-Acworth. It is a very short statement and I will read from page 16.

Some time prior to 1880, the Dominion Government undertook the construction of a road that was designed to be a link in a transcontinental line. In that year the Canadian Pacific Railway Company was organized for the purpose of completing the line. The assistance given to the company by the Government comprises the following:—

(1) *Railroad handed over.*—The cost of road and surveys made by the Government, and turned over to the company free of cost, was \$37,785,320.

(2) *Cash aid:*

By Dominion Government to Canadian Pacific Railway Company	\$30,289,343
By Dominion Government to subsidiary companies	13,129,873
By Provincial Governments to Canadian Pacific Railway Company	412,878
By Provincial Governments to subsidiary companies	12,016,257
By municipalities to Canadian Pacific Railway Company	464,761
By municipalities to subsidiary companies	4,632,422

By Dominion Government (by purchase back of land previously-granted)	10,189,521
	<hr/>
	\$71,135,055
Deduct loans since repaid	4,229,574
	<hr/>
Total cash aid	\$66,905,481

(3) *Land grants:*

	Acres
By Dominion (excluding land repurchased) ..	21,634,190
By British Columbia	6,388,998
	<hr/>
	28,023,188
Land sales to June 30, 1916	16,541,056
	<hr/>
Land still in hand, acres	11,482,132

Proceeds of lands and townsites to June 30, 1916, \$123,810,124.

The company's report for June 30, 1916, shows net proceeds from land sales as \$68,255,803. The difference, it is understood, represents expenditure by the company for development projects, irrigation, hotels, etc., and, in some cases, dividends.

The unsold lands of the company are carried in its accounts at \$119,250,000.

Summary:—

Completed road and surveys, cost Government ..	\$37,785,320
Cash subsidies	66,905,481
Lands sold	123,810,124

Total public assistance, direct and indirect .. \$228,500,925¹

Further, indirectly, the Canadian Pacific has had Government aid, the value of which cannot be determined, such as right to take public land free for railway purposes; various loans (since repaid); certain exemptions from taxes; admission of original construction material free of duty; and other concessions.

Pardon me for reading that, but I thought if I read it into the record it would be very convenient. As I said, I am only doing that because there was some question at earlier sittings whether or not one could find in one convenient place the total of the aid to the Canadian Pacific.

MR. FAWCETT: Mr. Chairman, I really did not think I would be leading off here. First, I would like to commend Mr. Frawley on a very excellent brief. I think this is very definitely one of the better briefs which has been presented to this Committee.

¹It must be noted that this sum is not net to the company, as it represents the gross receipts, while the company has expended large sums of money in irrigating a portion of the lands sold. As pointed out, however, the company values its unsold lands at \$119,250,000.

I was interested in one line in paragraph 1, which states: "Our appeal seeks the restoration of the second transcontinental train..." I will not go on from there. I gather it is your opinion Mr. Frawley, that there is a need for a second transcontinental train and, as has been suggested by some, perhaps a train supplemented by day liners between certain points, is not sufficient, in your opinion. Do I gather that you do feel the business is there to warrant a second transcontinental train on the Canadian Pacific.

Mr. FRAWLEY: Yes, Mr. Fawcett, that is our position.

Mr. FAWCETT: Well, in line with that, Mr. Frawley, would you say that there would have to be some readjustment in fares? I understand the long haul fares on the Canadian Pacific do correspond very favourably with Canadian National but it is the shorter runs that vary. For instance, the fares on the Toronto to Montreal to Ottawa run; the Sudbury to Fort William run, and this sort of thing, are approximately double the CNR fares. Now I am wondering if you feel, Mr. Frawley, unless there is a readjustment in these fares that there is a possibility that the "Dominion" will not pick up the business that they have lost to the Canadian National and to other means of transportation. Do you think there should be a readjustment of fares.

Mr. FRAWLEY: That there should be a readjustment in transcontinental fares?

Mr. FAWCETT: I would say fares that do not correspond favourably with Canadian National, the fares on the shorter runs where they are approximately double Canadian National fares. Do you think that they would get the business back on the "Dominion" if they continued to keep the fares on these runs at the level that they are today.

Mr. FRAWLEY: I would like to see some fair competition. That is what the Canadian National has done and it would be interesting to see if the Canadian Pacific actually aggressively sought passenger business which, very respectfully, I think they have not. I think one of the tools they would use is the fare structure and I think they have not done that.

Mr. FAWCETT: Yes, that would be my opinion too. I notice in paragraph 5 here you mention the fact that Canadian Pacific used what was called a passenger deficit as an argument to increase freight rates. Would you say that in using this type of an argument they had more or less obligated themselves to accept a deficit in passenger service, because they have used this to get an increase in freight rates.

Mr. FRAWLEY: I wonder if it is quite right to say they have used it. It went in, Mr. Fawcett, as an item in their expenses, just as real as wages. Passenger deficit was just written down as an item in the statement of expenses and, therefore, of course, it entered into the necessity for increasing freight rates, so you could say that the freight shipper was carrying the passenger deficit. And, that is what the provinces consistently fought against for eleven years.

Mr. FAWCETT: In other words, in this particular instance they tied the two types of rail traffic together but when they wanted to discontinue the "Dominion" they separated the passenger traffic from the freight traffic.

Mr. FRAWLEY: That might be said but, on the other hand, they did present a figure; they did present a statistical separation of passenger costs, but it

never was broken down or examined during the 12 years that the provinces were contesting these freight rate application cases.

Mr. FAWCETT: Well, Mr. Chairman, I could ask more questions but I think it is only fair I should leave some questions for other people.

Mr. SALTSMAN: Mr. Chairman, Mr. Frawley, referring to page 3 you mention the Committee might find it profitable to examine the practice before the Interstate Commerce Commission and the Federal Power Commission of the United States. Could you give us a brief review of what this commission of the United States does?

Mr. FRAWLEY: I wonder if I could answer that by giving you a rather startling example. As the Committee knows, Trans-Canada Pipe Lines was to build a line to bring Alberta gas into Ontario and they wanted to build it through the United States; they are presently before the Federal Power Commission in Washington seeking that permission. I was amazed to pick up the newspaper about two weeks ago and find that the principal Trans-Canada witnesses were being searchingly cross-examined by Federal Power Commission counsel; that struck me as odd, but then I realized—after I finished reading the piece—that that was a counsel appearing in opposite interest. He was indicating all the different reasons why it was not a good thing to build a trans-Canada pipe line through the United States. Now it is that kind of thing that I am suggesting might be examined by the committee, for example, the position of that counsel, who pays him, whether he is paid out of the funds of the Federal Power Commission, and are the experts, economists and analysts assigned to brief him. I am sure that your investigation would find that that is so. That is what I mean. It is creating an opposite interest that is troubling me.

Mr. SALTSMAN: Mr. Frawley what you are suggesting then is the adversary system, the same as in a trial. A trial is held and each side is represented by counsel who are of equal power and strength.

Mr. FRAWLEY: Yes.

Mr. SALTSMAN: From your statement on page 3, paragraph 9, starting with "It is true that the staff of the Board of Transport Commissioners critically examines the cost figures...", can I take it that you are making an assertion that the manner in which the C.P.R. costs were examined before the Board of Transport Commissioners was not as critical as it might have been had expert counsel, witnesses and accountants been called to cross-examine the C.P.R. at that time.

Mr. FRAWLEY: Yes, Mr. Saltsman, that is exactly what I must say. I must say that, admitting that I was there; but I certainly had no instructions, as I had in the Crownsnest Pass grain case, to go out and spend large—I mean very large—sums of money employing experts to look at those C.P.R. Crownsnest costs, to make counter analyses, to present them and to be cross-examined by Canadian Pacific counsel who went through the whole business with regard to the Crownsnest grain. But it was not in the cards to do that in the case of the "Dominion". I did not have instructions to go to that expense. But I raise a question of principle, as you are putting it to me. It is the adversary system

that has been lacking, and I must try to be brief because that could lead into a very long discussion. But during the ten years of the freight rate cases the western provinces and the Atlantic provinces spent an awful lot of money contesting those freight rate increases, at their own expense. And now when a case goes before the Board there is no adversary position taken unless a province or a large city with ample funds to retain counsel and experts go in there. So I put it to you, somewhat regretfully, many, many cases go before the Board and they are not properly and critically examined by people in opposite interest. I want to stress that.

Mr. SALTSMAN: At the risk of putting words in your mouth, in other words, the public interest was not as adequately defended before the Board of Transport Commissioners as was the position of the C.P.R.? The C.P.R. was able to come with experts. The public interest did not have these experts to act on their behalf. I am talking of the users of the railroad and all the other people who might be concerned about any increase in freight rates or discontinuance of passenger service.

Mr. FRAWLEY: Well, Mr. Saltsman, I have to put it this way, that in the net result those costs were not subjected to an independent examination by a cost analyst retained in the opposite interest and if from that follows an answer to your question, all right; but I naturally, and with great respect, do not like to be led into an answer that the public interest was ignored. We were there to spend our money if we wished but I raise the question of the principle. Is that the way to dispose of these cases before the board?

Mr. SALTSMAN: I would like to turn to page five in which you give some indication of the differences in rates that prevailed between the Canadian Pacific and Canadian National, and it is perhaps significant to add to that, with your indulgence, Mr. Chairman, an announcement this morning, I presume, from the company, the Canadian Pacific Railway, as reported by the Canadian Press, of a further increase in their rates. Now I would suggest, Mr. Chairman, that this is very germane to the discussion because this is one of the points that is constantly being made by the witnesses who appear before us. I speak of the attempt to downgrade the passenger service, the attempt to practically kick passengers off the rails by various techniques. With your indulgence and with the committee's indulgence I would like to read these new rates which were announced today into the record because I think they are supplementary to what is being said here on page five.

The VICE-CHAIRMAN: Does the committee agree?

Some hon. MEMBERS: Agreed.

Mr. SALTSMAN: The Canadian Press reports the C.P.R. is raising charges on meals and sleeping accommodation for transcontinental runs this summer. Last August the C.P.R. raised coach fares a nickel a mile on routes not directly competitive with the C.N.R. This summer the C.P.R. is leaving the basic fares at last year's level but is raising meal and sleeping accommodation rates. From June 1 the C.P.R. will charge \$97 for a ticket lower berth and meals one way from Montreal to Vancouver aboard the "Canadian." This compares with a charge of \$87.50 last summer. Week days this summer the C.P.R. will charge

\$84 for the same service. On the same trip C.P.R. will be charging \$107 for a roomette compared with \$100 last summer and CNR's top of \$97.

I read this into the record as a further indication of the tendency to increase rates and to attempt in some way to make passenger travel aboard the Canadian as difficult as possible. I would like to move on to the bottom of page 9, where the question is asked: "Is the Canadian Pacific's new structure consistent with the obligations it assumed when Parliament gave it 2,000 miles of railway..." I would like to ask the witness the following question. Is it your opinion or are you suggesting that perhaps the C.P.R. by its original terms of reference had a primary obligation to stay in the transportation business rather than branch out into these other things; and when profits were made from its transportation services that it had to some extent an obligation, as might have been done, to either return those profits in the form of higher dividends to its stockholders, to reduce prices throughout the railroad system or to increase their services to the public rather than divert its investment into other fields.

Mr. FRAWLEY: It is my view that the Canadian Pacific may be increasing its profit position through Canadian Pacific Investments, and considered by itself that is an excellent situation. Canadian Pacific is a magnificent corporation. It presents a very fine image of Canada to the world, but at the moment we are examining critically their passenger policy, and I venture the suggestion that they must not increase their profit position through Canadian Pacific investments at the expense of carrying on a passenger service, even when that passenger service may fall to some extent below a profitable position.

Mr. SALTSMAN: May I ask you this further question. Had the CPR remained exclusively in the transportation field would there have been more money for transportation purposes.

Mr. FRAWLEY: Oh, I would not want to be held to be critical of the Canadian Pacific going off into what it has gone into, Canadian Pacific Investments. I must insist that so far as I am concerned—and I am sure so far as the people I represent are concerned—there is nothing wrong with that, not at all. That is a very good thing. But, was it done or was some of it done at the expense of the passenger department? Now, if you accept my suggestion then you simply say, we do not care how much money Canadian Pacific Investments are making, they have got to carry the passenger deficit. And, if I may say so, I was rather pleased to see that my friend, counsel for British Columbia, made the same suggestion when he appeared before the Board in British Columbia. As a matter of fact, as I said in the beginning, we said for 12 years consistently that the passenger deficit should be carried by what we call other income. Other income now has become Canadian Pacific Investments.

● (10.35 a.m.)

Mr. SALTSMAN: I have some further questions but perhaps I will have an opportunity later on to put them.

Mr. HORNER (*Acadia*): Mr. Frawley, in assessing the Canadian Pacific's position with regard to passenger traffic under the total corporation—you suggested a while ago that this has been attempted during the past 12 years—has the Board of Transport Commissioners ever accepted this argument in the past?

Mr. FRAWLEY: No, and I did not want to leave any doubt about that, Mr. Horner, and that is why I said earlier on, on page 2, paragraph 5, we put that forward and it was disallowed each time by the Board.

Mr. HORNER (*Acadia*): I know in questioning the Canadian Pacific earlier in the committee proceedings they certainly did not want to be examined in that way at all. They wanted to take passenger service in itself and freight service in itself. It is difficult to establish now, after so many years of transportation hearings and transportation rulings, why all of a sudden the whole operation should be taken—and I am sure you will understand this.

Mr. FRAWLEY: I understand that, Mr. Horner, and you have given me an opportunity, if I may take it, to put it this way. Certainly the Board turned us down. I will go further because I would not want to mislead the committee for a moment. We appealed a good many of those Board decisions through Governor General in Council and those arguments were equally rejected. But now we are talking in parliament. I have to say I am very proud and very honoured to be talking to a committee of parliament, and I respectfully submit on behalf of the people I represent that parliament must take a very critical look at the Canadian Pacific Railway Company as it has now become the Canadian Pacific of the Sixties, as I call it—I hope not too poetically. And, when you take the critical look, Mr. Horner, then I think you will say, "Well you are running passenger as a loss but that money is coming from some place and you are putting it into Canadian Pacific Investments, so that is fine; carry on with that. I am not objecting to that, but you must be regarded as a corporation. We must not allow you to statistically segregate this passenger business and say it must stand on its own feet. Notwithstanding the adverse results of our earlier efforts to make passenger deficits be carried by other income, I say that now the time has come for parliament to take a critical look and to do what we suggested for a long time should be done, and I am now suggesting today should be done.

Mr. HORNER (*Acadia*): That is fine. You have cleared up my thinking in this regard. I have one further question on the cost analysis. Briefly, what you are saying is that you are asking this court of parliament to break ground and rule that Canadian Pacific, wherever it is feasible, should maintain its passenger service whether or not it operates at a loss.

Mr. FRAWLEY: That is right, within certain limits. I would not say that that train from Stettler out to Coronation should necessarily be maintained, Mr. Horner, for ever and ever; but when I am talking transcontinentally I say I am talking about a national issue, and I say yes. I say that that train should be continued—a two-train passenger service.

Mr. HORNER (*Acadia*): I think you have presented a very challenging opportunity to this committee and I am sure the committee will give it a lot of study when they hand in their report. With regard to the cost analysis and the question of presenting opposite interest I think that this committee and any court in the land would find that the CPR has to some extent—now to what degree it would be difficult to ascertain—downgraded their services and, therefore, traffic has fallen off. I suggest to you, particularly in the light of new trains coming into being, and whether the Canadian National buy

or rent the services of these new trains, that rather than have a cost analysis study the opposite interests of the "Dominion" service, which would be very difficult to do because passenger traffic has fallen off so bad that perhaps even with a thorough cost analysis of the last two or three years we would still prove a loss.

Mr. FRAWLEY: You are right, Mr. Horner; I certainly will not disagree. Even the most searching analysis of the kind that was done in respect of the Crows nest Pass case might not turn up a profitable operation.

Mr. HORNER (*Acadia*): Would it not be better for this committee to recommend that a searching cost analysis be made of passenger train traffic; in other words, from point A to B, is it feasible to run a train and carry passengers at a rate which will be sufficient to appeal to the public. This is what I would like this committee to ascertain, particularly in the light of the new trains coming into service which are going to run at 160 miles per hour. I assume the CNR are going to ask the government to spend huge sums of money to rent these trains. Surely this committee should know whether or not there is a future in the rail passenger business and I would think, and I was wondering if you would agree, that this type of cost analysis could prove whether it is efficient for the "Dominion" to be kept on, could prove whether it is efficient for the "Canadian" to be kept on, could advise the committee whether or not we should recommend that the government advance moneys to the CNR to buy this new mode of train travel.

Mr. FRAWLEY: I agree with you, Mr. Horner. I have said in this statement somewhere that Alberta does not believe that the Canadian Pacific cannot profitably operate a double train transcontinental system. It is true the Canadian Pacific officers have told the committee, as they have told the Board, that they tried and they tried and that they didn't leave the passengers; the passengers left them. I am making the serious suggestion that there should be some sort of independent appraisal of the ability of the Canadian Pacific to operate a passenger service. It may seem strange having people go in to tell the Canadian Pacific how to do it but it is all done in the context of the attitude of the Canadian Pacific senior officers toward passenger service. I do seriously suggest that there is a place for an independent evaluation; not so much only a cost analysis but an independent appraisal of the passenger service to arrive at an answer as to whether or not the Canadian Pacific Railway could not profitably operate a real transcontinental service.

Mr. HORNER (*Acadia*): Do you think, with regard to presenting a cost analysis in the opposite interest, of maintaining a passenger service rather than what appears to be in the minds of the management of CPR, particularly that they wish to discontinue and get out of passenger service, that this committee could hire cost analysts that could set up a problem case and study the question of passenger traffic, the economics and whether or not it is feasible to get back interest on invested money, and passengers on the rails too.

Mr. FRAWLEY: I do think so, and I do very respectfully urge that the committee consider just that sort of thing. There are people available and I think they could do a very good job for the committee.

Mr. SOUTHAM: Mr. Chairman, several of the questions that I had planned to present to Mr. Frawley have already been asked and answered. I would like to associate myself with several other committee members who have stated that they are very pleased with this very comprehensive brief which Mr. Frawley has presented to us.

My questions were to resolve this opposite interest and cost analysis. I have been following this very intently through our hearings and I think it is going to be one of the basic approaches to settling this whole argument. I would like to ask Mr. Frawley if he is in agreement with the suggestion that Mr. Horner has just made, that this committee—and I take it he is; and it has been discussed at previous committee meetings—should engage the very best cost analysts or economists to help us to analyze these cost figures as presented by the CPR. You are in agreement with this?

Mr. FRAWLEY: Very respectfully I am indeed very strongly of that opinion, Mr. Southam.

Mr. SOUTHAM: When we had Mr. Emerson and other CPR witnesses before us we had a discussion on the transfer of passengers from the railroads to air and I was very interested in Mr. Emerson admitting that at the present time in analyzing the cost of transferring passengers across Canada that the ratio on the basis of economy was about four to one in favour of transferring passengers by air rather than by rail. Now would you presume that possibly the CPR are pursuing a policy of temporary loss on passenger service at the present time by downgrading their services with the expectation and hope that some time in the future these rail passengers would be taken care of by air transport? Do you suppose this is a premeditated policy, as it were, to ultimately build up air passenger service rather than rail?

Mr. FRAWLEY: Well, Mr. Southam, I hope it is not an unfair reflection but the Canadian Pacific is in the air business as well as in the passenger business, and they do seem to be if you just look at their amount of advertising. Now that advertising may not be all and an end all but it may be a factor. If you just look for a moment at the Canadian Pacific advertisements for its air business you will find that of course there is much more of it than for passenger service. But then I think it is only fair to turn right over to the Canadian National. Now you may say the Canadian National is also in the air business. I suppose it is not, it is really the government of Canada in both passenger business and air business. But nevertheless, the Canadian National is certainly putting forward a terrific effort to get people on their planes; there is no doubt about that. So, there may be something in what you say, Mr. Southam, but I would have nothing but just a passing notion about that.

Mr. SOUTHAM: Another question, of course, that intrigues me, so far as transportation is concerned, is comparing the freight services to passenger services. We anticipate—it will be some time in the future; possibly it may never occur—there will be developed other modes of transport to carry heavy goods to a large extent, for instance grain. It is quite possible too that some time in the future the CPR, as a corporation, might want to start downgrading even its freight services and more or less transfer their interest over to that part of its corporate body. Now, I do not see any indication of this yet but if you follow through on the downgrading of passenger service the same

thing might happen so far as freight services are concerned. Of course, here again you would have a basic argument so far as people in western Canada are concerned.

Mr. FRAWLEY: Well, all I can say, Mr. Southam, is that when you read their Annual Report it makes very interesting reading. The phenomenal success of Canadian Pacific Investments makes very interesting reading.

Mr. SOUTHAM: That is all I have to say, Mr. Chairman.

The VICE-CHAIRMAN: Well gentlemen, I have five other members who would like to speak and we have only 15 minutes left. As you know we have to be back in the house at 11 o'clock. I have Mr. Olson, Mr. Reid, Mr. Allmand and Mr. Deachman.

Mr. OLSON: Well, Mr. Frawley, I think your brief makes clear that the position of the Alberta government is that the total corporate structure and earnings of the Canadian Pacific not only could but does, in fact, carry all of the costs plus showing a reasonable profit. You pointed out that perhaps CPR, through previous representations to the Board of Transport Commissioners, have already been paid for maintaining a reasonable passenger service. And then along with that you refer to the contractual obligations. In other words, I think we can assume that the people you represent, the government of the Province of Alberta, believe that because of these two things they have an obligation to maintain a passenger service, and you have stated two transcontinental trains. So then the next thing we get to is how much do we need now. Do you believe that we need two transcontinental trains on a daily basis for 12 months a year?

Mr. FRAWLEY: I am a little timid about talking about what is in my petition to the Governor in Council but perhaps, as the committee knows, those of us who did file appeals to the Privy Council have been assured by the Minister of Transport, speaking for the Privy Council, that there is nothing at all improper in coming before this committee and discussing matters which necessarily involve what we have placed before the Governor in Council. So I can say that what Alberta advocates is a daily service for the second train, a daily service in the summer months and a tri-weekly service in the remaining nine or ten months of the year.

Mr. OLSON: It would be your position that that should be set up for the summer of 1966 as well as ensuing years.

Mr. FRAWLEY: Oh yes. There is not any waiting period visualized in any of my submissions.

Mr. OLSON: I just want to be clear on that.

The next question. You refer to the general policy and attitude of senior Canadian Pacific management toward passenger service in a number of places in your brief. You are then of the opinion that if this attitude was changed so that they aggressively went after passenger business and provided an attractive service this would meet the public interest without the Company incurring serious losses and deficits.

Mr. FRAWLEY: That is what I say, Mr. Olson. I think any deficit could be brought down to, I say, manageable proportions, and perhaps disappear. It needs an aggressive passenger policy.

Mr. OLSON: And it is a reverse of what appears to be their attitude at the present time.

Mr. FRAWLEY: That is right, sir.

Mr. OLSON: Now, Mr. Chairman, I have many other questions but there is only 12 minutes more.

Mr. REID: Mr. Frawley, in dealing with the C.N.R. and C.P.R. passenger services, as you did, the C.N.R. is supposed to have had a deficit of some \$45 million last year, and that is only an approximate figure. One of the things which has always bothered me about the freight shipper carrying these burdens is that it puts perhaps an undue burden on the grain grower and other people who utilize these things. One of the arguments the C.P. used by implication was that if they were able to get rid of their passenger service they would provide better, effective and perhaps cheaper freight service. Could this loss in passenger service not be interpreted as a sacrifice in order to get better rates for freight?

Mr. FRAWLEY: I would find it very difficult to agree with that. I must say it is the first time I have ever heard that the Canadian Pacific wants to get rid of passenger deficits so as to improve its relationship with the freight shippers. I certainly know that at the moment the freight shipper carries the passenger deficit and that must be done away with and, as you know, the MacPherson Commission said to get rid of it out of the national treasury. I am putting forward a somewhat different place for the relief.

Mr. REID: Now, assuming that this committee came to a decision that we should order the "Dominion" back on and given your views of the attitude of C.P.R. management, do you think we will get a better "Dominion" service at all? What I am talking about here is that you can lead a horse to water but you cannot necessarily make him drink. In other words, if we order the Dominion on we may be just defeating ourselves in the long run.

Mr. FRAWLEY: That is a very intriguing suggestion, Mr. Reid. In other words, if you tell Mr. Warren he has to run the "Dominion" again this year and his heart is not in it, will it be the success that we would all like it to be. I am afraid it is difficult to answer that question.

Mr. ALLMAND: Along the lines just mentioned by Mr. Reid, when you say that you want two transcontinental trains I presume you want two good transcontinental trains not second rate service. This is the problem. You need some effective means of controlling the C.P.R. and other railroads so that they will give you efficient service. Now, I see at page 4 of your brief, paragraph 13, you suggest an amendment to the Railway Act which would require prior approval of the Board to reduction in passenger train service. Now, I presume by that you mean that if a railway wants to reduce the number of cars, sleeping car service, dining car service, scheduling and so forth, it would have to come before the Board and make a case for reducing this service. Is that correct?

Mr. FRAWLEY: I would not reduce it to discontinuing a certain number of cars on the train. What I think about this 168 is that it does not go far enough. It only requires the prior approval of the Board to actually take up the rails

and abandon the line of railway. I have not attempted to draft something which I think would fit the case, but what I object to is the ability of the Canadian Pacific to do what they did in this case, take the train off, and then we are left with the powers of the Board to suspend. I think that prior approval is a very good thing, in serious cases; I do not think there should be prior approval in every single act the railway takes.

Mr. ALLMAND: You see I think the problem that Mr. Reid brought up is the real problem. You can force them to put on the train but what kind of service are you going to get. I think that even the type of amendment that you suggest would not be adequate because the railways and transportation services people who are really interested in the business keep improving their services. For example, even if Canadian Pacific never reduced their service, and if they did not really want to improve it, I bet the CNR would, and so would the air lines and the bus services, so that you would end up with a downgrade of service even though they did not downgrade it; they just failed to get ahead. I do not know whether you can ever force a railway to give you something you really want if they do not want it.

Mr. FRAWLEY: I wonder if my suggestion about this amendment misunderstood. All I say is that they should be made to apply before they do the thing, go to the Board and discuss it then and have the people objecting come in then. All I am objecting to is the mechanics of it. At the moment because of section 168 of the Railway Act they can discontinue the "Canadian" tomorrow. They could take the "Canadian" right off tomorrow and have no transcontinental service, without the Board knowing anything about it; and everybody would run to the Board and the Board would make a suspension order. It is just a matter of the mechanics of it that I am concerned about. There should be an application for prior approval. If they can make a proper case on the application for prior approval, then they can get the permission to discontinue the train.

Mr. ALLMAND: You seem to approve very much of the CNR's service and the things which they are trying to do. I am just wondering whether you think Canada would be better off with all our railway services run by the CNR.

Mr. FRAWLEY: No, I think I would have to say, remembering the people I speak for, that we would not want that at all.

Mr. DEACHMAN: I am referring to the phrase on page 7 of your brief in which you quote the CPR Act, "And the Company shall thereafter and forever efficiently maintain, work and run the Canadian Pacific Railway". We have discussed this many times in this committee. Is it your feeling that we should run the Canadian Pacific Railway forever and irrevocably tie it to operating a passenger rail service?

Mr. FRAWLEY: Yes, I think that one of the things they undertook was to run a railway carrying both goods and people and I think they have an obligation under that contract to carry people.

Mr. DEACHMAN: And so you interpret that phrase to mean that they are irrevocably tied to the operation of a passenger rail service.

Mr. FRAWLEY: Yes, as part of the operation of the railway I would have to say that.

Mr. DEACHMAN: When you say a passenger rail service, is it your opinion that irrevocably ties it to the operation of a transcontinental passenger rail, a continuous transcontinental passenger rail service, a local service or what kind of a service?

Mr. FRAWLEY: I think I would have to answer, Mr. Deachman, and I am certainly not going to be evasive at all. It would have to be a service suitable and adequate for the people of Canada, some local and some transcontinental. Naturally, Alberta thinks more about the transcontinental service. We have had a lot of interruptions, a lot of discontinuances and a lot of abandonments of little point to point passenger services in Alberta and we have never cried out very much about that. We cry out when they take away transcontinental service because Alberta, situated where it is, must maintain adequate links with the rest of Canada. That is why we are concerned about transcontinental services. But my answer to your question perhaps is just the kind of service they must maintain is one which is adequate under all the circumstances and with the expansion, the growing nature of Canada—certainly in Alberta it is expanding.

Mr. DEACHMAN: Mr. Frawley, we have been setting aside any feelings or criticism we might have of the argument presented by the C.P.R., we have witnessed over the years at least certain areas where competing passenger services, which did not exist in 1885, have eaten into passenger rail service and diminished it to a point where we can consider there is not much revenue left in it. Is this not so?

Mr. FRAWLEY: I think that is so. I think it is not an untrue statement at all but I would say that all of this must be balanced with what the Canadian Pacific Railway has done recently in building itself into an industrial and investment complex. I think that that cannot be separated when you are making a balanced judgment on the whole matter. That is why I say in the context of the kind of railway that the Canadian Pacific is today you must judge the nature of its contractual obligations.

Mr. DEACHMAN: I would continue except that I hear the bell. Are we going to continue with the bell ringing, Mr. Chairman, or are we closing the meeting at this point.

The VICE-CHAIRMAN: I think we should close it because this is all the time the committee has at its disposal this morning. Do you want the same witness back, Mr. Olson.

Mr. CANTELON: I would like him back on Tuesday, Mr. Chairman, if you do not mind, because I have some questions I would like to ask.

Mr. OLSON: Would Mr. Frawley be available?

Mr. DEACHMAN: I have a couple of questions I would like to finish.

Mr. OLSON: I move we adjourn until Tuesday morning.

Mr. CANTELON: I second the motion.

Motion agreed to.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament
1966

STANDING COMMITTEE

ON

TRANSPORT AND COMMUNICATIONS

Chairman: Mr. JOSEPH MACALUSO

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 17

TUESDAY, MAY 31, 1966

Respecting

The subject-matter of the adequacy of the present program and future plans
for passenger service on the lines of the Canadian Pacific Railway.

WITNESS:

Mr. J. J. Frawley, Special Counsel for the Government of the Province of
Alberta.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE
ON
TRANSPORT AND COMMUNICATIONS

Chairman: Mr. Joseph Macaluso

Vice-Chairman: Mr. H. Pit Lessard

Mr. Allmand	Mr. Fawcett	Mrs. Rideout
Mr. Andras	Mr. Horner (<i>Acadia</i>)	Mr. Rock
Mr. Ballard	Mr. Howe (<i>Wellington-</i>	Mr. Saltsman
Mr. Bell (<i>Saint John-</i>	<i>Huron</i>)	Mr. Sherman
<i>Albert</i>)	Mr. Hymmen	Mr. Southam
Mr. Byrne	Mr. MacEwan	²³ Mr. Tolmie
Mr. Cantelon	Mr. Olson	²⁴ Mr. Thomas (<i>Maison-</i>
Mr. Carter	Mr. Pascoe	<i>neuve-Rosemont</i>)
Mr. Deachman	Mr. Reid	—25

(Quorum 13)

Maxime Guitard
Clerk of the Committee

²³ Mr. Yanakis replaced Mr. Tolmie, on May 30, 1966.

²⁴ Mr. McWilliam replaced Mr. Thomas (*Maisonneuve-Rosemont*) on June 1, 1966.

Corrigendum: In issue No. 9, on page 596, line 31 should read: Mr. Cantelon: CNR does that regularly.

ORDERS OF REFERENCE

MONDAY, May 30, 1966.

Ordered,—That the name of Mr. Yanakis be substituted for that of Mr. Tolmie on the Standing Committee on Transport and Communications.

WEDNESDAY, June 1, 1966.

Ordered,—That the name of Mr. McWilliam be substituted for that of Mr. Thomas (*Maisonneuve-Rosemont*) on the Standing Committee on Transport and Communications.

FRIDAY, June 3, 1966.

Ordered,—That the Standing Committee on Transport and Communications be authorized to sit while the House is sitting on Tuesday, June 7, 1966.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House.

REPORT TO THE HOUSE

FRIDAY, June 3, 1966.

The Standing Committee on Transport and Communications has the honour to present its

FIFTH REPORT

Your Committee recommends that it be authorized to sit while the House is sitting on Tuesday, June 7, 1966.

Respectfully submitted,

JOSEPH MACALUSO,
Chairman.

(Concurred in on June 3, 1966)

MINUTES OF PROCEEDINGS

TUESDAY, May 31, 1966.
(31)

The Standing Committee on Transport and Communications met at 11.00 a.m. this day. The Chairman, Mr. Macaluso, presided.

Members present: Mrs. Rideout, and Messrs. Allmand, Bell (*Saint John-Albert*), Byrne, Cantelon, Carter, Deachman, Fawcett, Howe (*Wellington-Huron*), Lessard, Macaluso, MacEwan, Olson, Pascoe, Reid, Rock, Saltsman, Sherman, Thomas (*Maisonneuve-Rosemont*), Yanakis (20).

In attendance: Mr. J. J. Frawley, Special Counsel for the Government of the Province of Alberta.

The Chairman opened the meeting. The Committee resumed its examination of the witness, in relation to the subject-matter of the adequacy of the present program and future plans for passenger service on the lines of the Canadian Pacific Railway.

The examination of the witness being completed, the Chairman thanked Mr. Frawley, who retired.

Then the Committee proceeded to other business.

On motion of Mr. Reid, seconded by Mr. Fawcett,

Resolved unanimously: That the letter received from Mr. J. A. Sherrett, Industrial Commissioner of the Town of Kenora, Ontario, be printed as an appendix to this day's Minutes of Proceedings and Evidence. (*See appendix A-2*)

On motion of Mr. Olson, seconded by Mr. Pascoe,

Resolved unanimously: That the supplementary written representations made by Alderman R. G. McCullough of the City of Red Deer, Alberta, be printed as an appendix to this day's Minutes of Proceedings and Evidence. (*See appendix A-3*)

The Committee agreed unanimously to Mr. Cantelon being granted leave to have a certain correction made in the evidence of the Committee meeting of Saturday, May 7, 1966. (Issue No. 9, page 596, line 31) (*See Corrigendum inside front page*).

Mr. Olson moved, seconded by Mr. Cantelon,

That the Committee make an interim report to the House, containing recommendations respecting the CPR passenger service requirements for the Tourist Season in 1966; and for the additional accommodations required in 1967 to meet anticipated demand from Expo 67 and Canada's Centennial activities;

and that such an interim report be drafted forthwith. And debate arising thereon, Mr. Deachman, seconded by Mr. Reid, moved in amendment thereto,

That the officials of the CPR be heard forthwith before an interim report be prepared.

After further debate, the question being put on the said amendment, it was resolved, by a show of hands, in the affirmative: Yeas 14; Nays: 4.

And the question being put on the main motion as amended, it was, by a show of hands, resolved in the affirmative: Yeas: 14; Nays: 2.

At 1.12 o'clock p.m., the Committee adjourned to the call of the Chair.

Maxime Guitard,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, May 31, 1966.

The CHAIRMAN: Gentlemen, I see a quorum.

We will continue with the questioning of Mr. Frawley on his presentation of the brief on behalf of the province of Alberta which was commenced on Friday.

Before doing so—well, I think this can wait until after the questioning is concluded.

I do not have a list of speakers, unless those from Friday. Is there a list?

Mr. OLSON: I appreciate that you want to get on with Mr. Frawley, but I wanted to discuss our program, and you have suggested that it would be better to do so after—

The CHAIRMAN: I suggest that after we finish with Mr. Frawley we will have a meeting because I want to discuss some other matters which are pertinent to the committee. We will commence with Mr. Cantelon.

Mr. CANTELON: If I can read my notes, I have a couple of questions here.

Mr. Horner, in asking his questions, seemed to get to the point, which is quite an important issue, about the cost analysis and it is on this point that I want to ask the first question. Under the present, or recent, conditions the CPR are basing their cost analysis on the passengers that they actually carry.

It seems to me that this does not tell us how many might have been carried if the conditions had been somewhat different. For instance, if reservations had been easier to obtain, and if the consist of the train had been maintained at a better level. The railroad, in my view, is quite clearly working on the basis that an economic number cannot be carried under any circumstances. I would just like to know if you do maintain, and if the province whose brief you are presenting maintains, that a sufficiently large number can be carried.

Mr. J. J. FRAWLEY (*Special Counsel, Government of Alberta*): Mr. Cantelon, that certainly is the view of the Alberta government, and that is why in one of my paragraphs I say just that—that it is the view of the Alberta government. Just by way of emphasis, this brief was prepared certainly after some conversation with Premier Manning. It is the view of the Alberta government that with a sufficiently aggressive policy a profitable operation could be arrived at.

Mr. CANTELON: You say that a profitable operation can be arrived at. That was not really what I was getting at in this first question. It was a question of whether a larger number of people can be carried, and the train that would be necessary to carry this number.

The second question I wanted to ask is: do you think that the railway can operate an economic operation if it carries the number of people you maintain it can carry?

Mr. FRAWLEY: Well, Mr. Cantelon that raises the question of whether or not, even with the most searching analysis of the cost figures submitted to the board, there could be a result that would show a profit, and I would not want to leave any impression with the committee that even the most searching examination would be sure to turn this so-called unprofitable operation into a profitable one.

It is because of that, Mr. Cantelon that we go further and make the bold proposition even if it is unprofitable it could still be operated as part of the general operations of the Canadian Pacific Railway.

Mr. CANTELON: Those two questions have been answered.

Mr. BYRNE: Mr. Frawley, on page 2, paragraph 7, you introduce the question of the Crowsnest rates and the cost analysis that was used before the MacPherson Royal Commission. I understand by the last sentence in that paragraph that the cost analysts of the Department of Transport or the board, or the commission analysts, have determined that there was a minus \$2 million. Is that right?

Mr. FRAWLEY: In the case of the Canadian Pacific Railway and for 1958, the year this was studied, the board found that in their view the true out of pocket loss was \$2 million.

Mr. BYRNE: Does that take into account the losses on branch lines? Were branch lines included in this analysis?

Mr. FRAWLEY: In the report by the Commission analysts? Mr. Byrne, I would not want to be dogmatic about that. Certainly the cost of operating what were called the solely related branch lines entered into controversy between the Canadian Pacific team of analysts on the one hand and the Manitoba-Alberta team of analysts on the other. There is no doubt about that. In the end how much of the Canadian Pacific view they took and how much of our views they took—well it all came out, in any event.

They found not the \$17 million which the Canadian Pacific claimed and not the plus half a million which we claimed, but the Commission arrived at \$2 million.

Mr. BYRNE: As a matter of interest, would you have any information about the percentage of the total freight handled by the CPR that is, export grain, or freight—?

Mr. FRAWLEY: No. But I think that figure is certainly in the records of the MacPherson Commission. It is large in the case of the Canadian Pacific because, of course, they have so many lines in western Canada.

Mr. BYRNE: I am wondering what percentage of their actual freight movement it is in any particular year.

Mr. FRAWLEY: I do not think that figure would be too difficult to turn up, Mr. Byrne. I will see if I can get that figure.

Mr. BYRNE: You said, Mr. Frawley, that you believe that under the terms of the 1880 agreement the Canadian Pacific Railway are morally or duty bound to provide passenger service: That is, passenger transportation and service. At what point do you suggest that it would be proper to abandon certain services in relation to the cost? Where would you draw the line?

Mr. FRAWLEY: Mr. Byrne, it may be difficult to draw the line. I think the best way to answer that is to say that there have been instances in Alberta where the Canadian Pacific or the Canadian National have sought to discontinue a passenger service and the government of Alberta has not gone into those cases and opposed. You might say there is a case where a completely unprofitable passenger service might be discontinued. But with respect to a transcontinental service, and Alberta being so dependent on transcontinental transportation, we say no, that different rules and different principles should apply. Then the 1880 agreement becomes very effective.

Mr. BYRNE: Even though the provision of this service at a large deficit would have the effect of preventing other more modern types of transportation developing to the fullest extent. Is it believed that we should continue to provide that passenger service at the expense of other developing services?

Mr. FRAWLEY: I want to understand what you say, Mr. Byrne. I do not quite know what you mean. At the expense of what other kind of service?

Mr. BYRNE: It has been said in evidence here before this committee that the Canadian National Railways which is endeavouring to build up passenger traffic, experienced a deficit last year of something like \$40 million. Do you think that that is a reasonable figure? Do you accept it?

Mr. FRAWLEY: Let me put it to you this way: If the Canadian National has a deficit of that kind, their shareholders are taking care of it. The shareholders are the people of Canada, and the shareholders are taking care of the deficit, and that is all I am saying with respect to the Canadian Pacific Railway.

Mr. BYRNE: This is a deficit. Will you accept this assertion as reasonable, that the shareholders will, then, this year pick up the debt, or subsidize the Canadian National Railways, to the extent of \$40 million.

Mr. FRAWLEY: I would not want to question this \$40 million, Mr. Byrne. I just do not know anything about it. I have not seen any Canadian National figures to indicate it is \$40 million. It might be more, and it might be less. I just do not know about it. I just do not know that there is any deficit at all. I have just heard it said that there must be a deficit.

I think when Mr. Sinclair was here he said that he had seen something, or surmised something, from what he thought the deficit would be \$40 million. I will not challenge those figures. I just do not know about them.

Mr. BYRNE: My point is that I am wondering, and concerned, that the Alberta government would suggest that we continue to subsidize a transportation service to the extent of \$40 million in order to preserve that railway rather than some other more modern link such as air service or a faster bus service.

Mr. FRAWLEY: I do not think that you can put it that the Alberta government is in favour of subsidizing anything, but it just happens that the shareholders are subsidizing the Canadian National operation and the shareholders happen to be the people of Canada. It depends what you call a subsidy. I prefer to call it a burden placed on the shareholders; and I draw no comparisons between that and the Canadian Pacific shareholders.

Mr. BYRNE: At Medicine Hat the people seem to favour a comparable service—that, is a regional service—that would give them better accommodation for their products. At this moment their chief concern is with the nurseries, flowers and plants, and so on. They did not seem to be so concerned with

maintaining two trans-Canada train operations, but would be quite happy with a regional service that would give them the same facilities as the "Dominion" did. Do you feel that regional service could be established as suitable as the "Dominion"?

Mr. FRAWLEY: I would not use the word offensively at all, Mr. Byrne, but I would think that perhaps Medicine Hat is looking at it in a more parochial way than the province of Alberta. I look upon this transcontinentally; I do not look upon this as a whole lot of little local trains—which it has become, of course, or which it had become because it is all gone now—it had become just a series of little local trains.

Anyway, my best answer to you, Mr. Byrne, is that if Medicine Hat prefers to have the piggyback, they took what they thought was the proper attitude for their particular reasons. Other towns in Alberta have taken a more transcontinental viewpoint.

The CHAIRMAN: Mr. Olson, would you proceed?

Mr. OLSON: I would like to say to you that I would like to move a motion respecting an interim report as soon as we are—

Mr. CHAIRMAN: We are still dealing with the Minutes of the—

Mr. OLSON: I just wanted to draw that to your attention.

Mr. Frawley, several places in your brief you talk about the attitude of the CPR and I presume you are referring to the senior management. You talk about the defeatist attitude, and so on, in a number of places, respecting the CPR passenger service. Because of the number of times that you have mentioned it, may I ask if you regard this as one of the key problems in so far as the whole performance of CPR passenger service is concerned? I am directing your attention to transcontinental service.

Mr. FRAWLEY: I would have to say yes, Mr. Olson. I find it very difficult to divorce the attitude of the Canadian Pacific in its insistence that it will only operate a profitable transcontinental service—I cannot dissociate that from the manner in which they have so successfully built up their Canadian Pacific investment.

Mr. OLSON: Do you think that there should be a trial period, or something of that nature, when they should in fact, enthusiastically try to promote a passenger service so that you could have a look, at it and see what the performance of this might be? Is this part of the solution?

Mr. FRAWLEY: Are you suggesting that—

Mr. OLSON: If we had a period of two or three years, taking into account the current conditions and the demand for travel, and so on—if the CPR did in fact aggressively pursue passenger service for this period, would we then be in a better position to assess whether there was an effective demand or not?

Mr. FRAWLEY: Yes; and, Mr. Olson I am glad, because that gives me an opportunity to go back to a question that was asked last Friday by one of the members and that it was: Why should we ask the Canadian Pacific to restore this particular train because they will probably not have the desire to make it profitable? I probably went along with him a little bit more than I should.

I would like to supplement that answer I gave the member by saying this: The people who are operating the Canadian Pacific Railway Company

today are very fine citizens,—Mr. Sinclair, the new president, Mr. Warren, the general passenger traffic manager—and I want to leave no other impression with the committee than this, that if it should be that, through this committee recommending to the Governor in Council, and the Governor in Council ordering the board to direct the railway—because I rather think that will be the change, and if an order was received in Montreal that the “Dominion” must be operated again as the second transcontinental train—I do not mean the one that they were operating in the wintertime since 1960, but a properly equipped train—I think that they would—in fact I am sure—that they would obey that order and that they would do their very best to operate a train and endeavour to make a profit out of it.

After that period that you mention then I think you would have a better picture of what the possibilities for the future would be.

MR. OLSON: What I was trying to get at, though, Mr. Frawley was that until and unless this is done so that we could see the results of this, it is pretty difficult to determine what effective demand may be, is it not?

MR. FRAWLEY: Oh, yes. I find it difficult to put the meaning on “effective” demand that the Canadian Pacific officers put on it. They seem to have picked up that word in the terms of reference and made a great deal out of it.

I think that the effective demand is something that can only be determined after a period of operation, probably of the kind you suggest; that is, the true demand. I do not particularly subscribe to the expression “effective” demand. I think that is an economist’s term.

If I might make a respectful suggestion to the committee, they might want to get some outside opinion about what does “effective” demand mean, particularly in the transportation world?

I will say no more than that about it. Other than that, Mr. Olson, I think your suggestion for a trial period really to determine the proper state of supply and demand might be very effective.

MR. OLSON: Do you think, Mr. Frawley, that there is an increasing or a decreasing demand for passenger service of all kinds, including by railway?

MR. FRAWLEY: Yes; with the growth in the population.

MR. OLSON: I am interested in what your opinion may be of this demand for passenger service in 1966, for example, as opposed to 1960 when the deterioration began.

MR. FRAWLEY: Well, it seems amazing to me that the Canadian Pacific could not increase the passenger carrying, that they should have to experience a decline when the Canadian National is experiencing an increase. To me that is very meaningful. The Canadian Pacific should be able to fill its trains as well as the Canadian National can fill them.

That leaves it to me to repeat what I said to Mr. Byrne a moment ago that there is an obligation to continue to do that, certainly as far as transcontinental service is concerned. But when you look at the figures you will find that Canadian Pacific have had a decrease in the revenue passenger miles of some 17 per cent, and the Canadian National an increase of 8 1-2 per cent in 1965 as against 1964.

MR. OLSON: There is an area I want to ask some questions about, Mr. Chairman, and that is this matter of what you have referred to, Mr. Frawley, as

the opposite interest in so far as concerns the hearings before the Board of Transport Commissioners in the past.

When we were in Manitoba, Mr. Mauro, for the provincial government of Manitoba, suggested that this adversary system that we have been using, which requires an opposite interest to be expressed at these hearings, was not satisfactory in many ways because transport, particularly the railway, comes completely within the jurisdiction of the federal government in so far as law and regulations are concerned. Yet in many of these Board of Transport hearings—in fact, I think he said in most of the Board of Transport Commission hearings—had it not been for the provinces and the cities taking this opposite interest, and, therefore, setting up a true adversary system, many of the applications made by the railways would not have been contested at all. It became a case of the CPR versus one or more of the provinces, and this was the basis for the evidence that came in. What do you suggest? What else should be done?

Mr. FRAWLEY: First of all, I did not see what Mr. Mauro said. I rather thought he would have sent me a copy of his statement. He probably will.

If your summary of what he said is correct—and I am sure it is—I agree completely and wholeheartedly with what Mr. Mauro said. The adversary system has been on a hit-or-miss basis, and if the provinces had not been before the board in the whole series of freight rate cases, and if Manitoba and Alberta had not been before the MacPherson Commission on the Crowsnest matter things would have been quite different.

It is not a satisfactory system and you ask me what I suggest concretely. I suggest that there be built up, in the regulatory body, a council to take the opposite interest rather than leave it to the Board of Transport Commissioners' staff themselves. If the provinces are not there it is all left to the staff of the Board, and the staff of the Board cannot be said, as I say in my statement, to be acting in the opposite interest.

I think that the idea is there, and that the adversary system is what we must have; it is the core of our whole judicial system; but in this very important matter of proceedings before the Board of Transport Commissioners there is room for great improvement; there is room for the laying down of some sound principles and practices, and the employment of people who will represent the opposite interest in these cases before the Board.

Mr. OLSON: In a number of briefs under examination there has been a suggestion that we have an overall authority, or something different from the Board of Transport Commissioners, in so far as taking care of the requirements—that all forms of transportation should be considered by one body, rather than the Air Transport Board, the Marine Commission, the Board of Transport Commissioners and so on, as at the present time.

Do you have any views on whether or not this should be an overall regulatory body or simply an advisory body?

Mr. FRAWLEY: That is between the two concepts, Mr. Olson. I do not think that we need anything in the way of a bigger and better regulatory body but I think there might be a place for an advisory board—a buffer—between the Governor in Council, because the Governor in Council in your system is still there in the Railway Act, and certainly I would not want to see that disturbed. I

think that an advisory body would be worthy of consideration. The MacPherson Commission said something about it.

Mr. OLSON: Yes, I appreciate that; but advisory to whom? Advisory to the Board of Transport Commissioners, advisory to the Governor in Council, or advisory to Parliament?

Mr. FRAWLEY: I would think advisory to Parliament. Might I make this suggestion in this same area: We have had appeals to the Governor General in Council for many years. With every respect to the Governor in Council, it seems to me that there was not built up the staff of advisers to the Governor in Council to assist the Governor in Council in the determination of these appeals. I find lately a tendency to build up the Privy Council office and, if I may be so bold as to say, there are some very good men going into the Privy Council office as advisers to the Governor General in Council. There may be a place to do some good work, to put in a staff of advisers who could, at least, act when there are appeals from the Board of Transport Commissioners.

Of course, we are asking for something just a little bit different. I still think it should be an advisory body not to the Board of Transport Commissioners, but to either Parliament or the Governor in Council.

Mr. OLSON: You feel that the Board of Transport Commissioners, in railway matters and other matters that they deal with—and the Air Transport Board in that area, and so on—could not remain as the regulatory body in line with, or within the confines of, policy that may be set down by the Governor in Council or Parliament?

Mr. FRAWLEY: I do agree with that.

Mr. PASCOE: Mr. Chairman, I just have a brief follow-up to the comments by Mr. Olson in regard to the efforts made by the CPR in 1960 and in 1961 to encourage passenger traffic.

I think we can agree that the CPR did make definite efforts to encourage passengers at that time, and perhaps the results were not completely satisfactory to the railway company. The question I wanted to ask Mr. Frawley is, if he considers, in the light of the apparent success of the CNR passenger promotion, that this would be a better time for the CPR to undertake a similar policy, especially with the public concern over highway accidents and traffic congestion? Does he think that perhaps the CPR might meet with more success?

Mr. FRAWLEY: It certainly is my view, Mr. Pascoe, that the things that I am respectfully suggesting to the Committee would be successful and, therefore, I do subscribe to the idea that the Canadian Pacific could attract more passengers.

It is rather discouraging to look at these last two annual reports and to find, in the case of the Canadian Pacific, comparing 1964 with 1965, that there is a decrease of 14.1 per cent in revenue passenger miles.

We go to the same figure in the Canadian National and we find that there is an increase in revenue passenger miles of 8.5 per cent. With the kind of line the Canadian Pacific Railway has running through the mountains, I think, with all due respect to the Canadian National, the Canadian Pacific has much the finer route through the mountains, and to me it is amazing that those kind of figures should have to be presented to the public.

Mr. PASCOE: Yes; that is one question. I have one more, Mr. Chairman, and this has been answered before. It is in regard to regional service. I want to ask

a direct question again on this: In our hearings across the country, from Vancouver to Port Arthur, there were quite a lot of suggestions about a dayliner or a rail liner service, especially between Calgary and Winnipeg. I see that you talk here about the appeal of the Alberta district for the restoration of the second transcontinental train.

What would your opinion be on operating the "Dominion" with a full consist of diners and sleeping accommodation for the tourist season, and perhaps a dayliner or a rail liner for the remainder of the year?

Mr. FRAWLEY: Well, Mr. Pascoe, I cannot do any better. In fact, I suppose I must tell you what we have submitted in our appeal to the Governor General in Council. In view of the fact that I have a letter from one of the members of the Privy Council, Mr. Pickersgill, indicating no impropriety in coming before this Committee even in the face of the appeal that we have filed, I perhaps should read you this. Our petition to the Governor General in Council concludes that the board should be directed to order the Canadian Pacific to restore the train, the "Dominion", as a fully equipped transcontinental train on a daily basis during the summer months and on a tri-weekly basis during the remaining months of the year.

Mr. PASCOE: You have no comments on the dayliner?

Mr. FRAWLEY: No; but I do want to say this. I said a moment ago, in reply to a question, that if Medicine Hat suggested a dayliner then it is quite acceptable. I know that other people in other provinces and in Saskatchewan have advocated a dayliner. I defer to those views.

All I can say is that the Province of Alberta has taken a broad view of it and has indicated that the "Dominion", as a fully equipped transcontinental train, should be restored, to give the people of the southern part of Alberta two trains a day; whereas the people in northern Alberta are getting three trains a day from the Canadian National.

The CHAIRMAN: Supplementary to that, Mr. Frawley, assuming now that we have provinces on each side of Alberta who say, "Maybe a dayliner would be sufficient", would not a proper dayliner service, in your view, be adequate to service the people of southern Alberta?

Mr. FRAWLEY: Mr. Chairman, I must advance my view that the Canadian Pacific Railway have enormous resources and they can run two transcontinental trains a day. If there is a tab at the end of the year I do not need to tell you, gentlemen, where that can be picked up, very, very readily. That is what British Columbia said. "Other income" is what we used to call it during the ten years of freight rate cases. Now it has a new name; now it is called "Canadian Pacific investments".

Mr. Howe (*Wellington-Huron*): In connection with this particular rail line service, one of the criticisms we have found of the CPR across the west is the schedule. The scheduling of a transcontinental train is a tremendous task, so that everybody gets on when they want to. It is impossible. Do you not think that a rail liner service could give a better schedule, fast, quick service between cities, and that it could adapt its schedule to be more in keeping with what the people want than could a transcontinental train.

Mr. FRAWLEY: Mr. Howe, I would not want to advocate something that I thought the people of Alberta did not want and you find an overwhelming

opinion at the grass roots level. Those people in Edmonton for whom I speak are very responsive to people at the grass roots level. It may be that operating a dayliner train might be satisfactory. We have dayliners all over Alberta—we are going to have fewer of them, they tell us—but it is difficult to disagree with you, Mr. Howe, about whether or not a dayliner would be sufficient.

Mr. CARTER: Mr. Frawley, I understand from your replies to earlier questions, both on Friday and today, that you are interested in the transcontinental aspect of the passenger service provided by the "Dominion" rather than the local service. Is that correct?

Mr. FRAWLEY: Yes, that is right.

Mr. CARTER: When the top management of CPR appeared before this Committee they took the stand, as I understand it, that because of the transcontinental passenger services available to the public by other means of transportation, the transcontinental service provided by the "Dominion" was no longer necessary; and that even if they went to the expense of promotion to get more passengers and they were successful, the expenditures involved in this promotional work and the running of the train would be a misallocation of their resources which would not be in the national interest. How would you reply to that argument?

Mr. FRAWLEY: I would reply to that argument, first, by indicating that you must look very carefully at that word "misallocation" of resources. I do not say that facetiously, but because we hear it so often. Everything that is suggested that seems to require an expenditure of money produces the reply, "Oh well, that would be a misallocation of our resources".

Apart from that as an opening remark, I cannot accept the suggestion that there are other ways of getting the people across Canada, by air and by highway. I cannot accept that as an alternative to a good rail service. That is why I do not agree with the Board of Transport Commissioners. They said they had canvassed the bus companies and they had canvassed the air lines and they felt that it could be taken care of by that means. I say it is not a practical answer to say to a large group of people, desiring to travel and spend their summer vacation in the mountains of Alberta, that they can go by air. They may not want to go by air, they may have a constitutional disinclination to travel by air—and I am speaking of groups of people. They talked about them going by bus, and, again, without any reflection on the kind of bus service, that again is not a substitute for running a fully equipped transcontinental train, or two of them across the country.

Therefore, my proposition, Mr. Carter, is that it is not misallocation of resources to ask them to run one more transcontinental train. I cannot regard that as a misallocation of resources, particularly when I look—and I must repeat this—when I look at the Canadian National Railway running three trains. There will be three fully equipped transcontinental trains running to Edmonton this summer. Are the Canadian National misallocating our resources?

I do not subscribe, and I have tried to indicate in my brief that I do not subscribe, to the belief—to the view—that the Canadian National are just spendthrifts because they are financed out of the national treasury. I say that if the Canadian National can run three transcontinental trains and pick up the revenue passenger miles as their annual report indicates, the Canadian Pacific

Railway can do it too, rather than have to state a decline of nearly 15 per cent in the same figure of revenue passenger miles.

Mr. CARTER: Thank you, Mr. Frawley.

Mr. ALLMAND: Mr. Frawley, in your statement you ask a very interesting question. Near the bottom you say: "In this regard two questions might be asked. 1. Does the Canadian Pacific seek to rid itself of passenger deficit so that, through Canadian Pacific investments, dollars saved can be turned into dividend-paying interest in enterprises totally unrelated to rail." This has important implications, because some people feel that if the CPR really tried it could make a profit on passenger services but because they have other interests which pay a higher rate of return, they very naturally allocate their investment resources to those areas.

In other words, they have so much money for investment, but they do not put that investment money into improving rail services; they put it into CP investments, the air line, et cetera. This is not because passenger service would necessarily lose money but because the others will give a greater rate of return than if they just had passenger services.

They say they are losing money on passenger services, but I feel—and many other people feel—that they are letting it go, they are downgrading it, because they can get more money, a higher rate, out of these other things. Is this what you are trying to imply in this particular question.

Mr. FRAWLEY: You have taken the words out of my mouth. You have taken precisely the implication that I wanted you to take out of that paragraph.

Mr. ALLMAND: I see. Well, do you think that in order to get a good passenger rail service from the CPR it may be necessary to break up the CPR empire? As long as they are a private company, it is only natural for any private company to put its investment resources where they are going to get the highest return. In other words, maybe air lines, maybe mines, maybe land speculation. This is a natural thing, to push the products that they have within their entire company, which will give them the biggest income.

In the United States they have broken up some big companies, from time to time. Do you think it might be necessary to try and have the CPR broken up into several companies?

Mr. FRAWLEY: I do not think that would be necessary. It is merely necessary for everybody to remember that the Canadian Pacific Railway Company is a utility. It is not the Massey-Harris Company which could discontinue a line of plows tomorrow and nobody would say anything about it. It is a regulated public utility plus the fact that it made a contract to the people of Canada in 1880, which I say they should be made to fulfill.

Mr. ALLMAND: Do you know if we have any information about what percentage of their investment resources is allocated to passenger rail services in comparison with all the other businesses which they presently operate? Has any information ever been obtained on this particular subject?

I ask this because when we had the officials here we asked them when they were going to upgrade their service, when they were going to buy new equipment. They said they had no plan of improving the service, even on the "Canadian", because they said it would last for years and years. At the same

time, they are improving their air services all the time, and many of their other services.

Mr. FRAWLEY: Yes, that is right. I wonder whether or not it would be a feasible or practical thing to instruct someone to make what the accountants call "a source and application of funds" statement.

The Canadian Pacific investments—I use the word—are phenomenal and it is not a misuse of the word. That company was incorporated only in July 1962, and you see now in the Canadian Pacific's last annual report how they are doing. Of course they are doing well, because they have a lot of good oil land out in Alberta and there are a lot of other reasons why they are doing well. But in view of the close relationship between Canadian Pacific investments and the kind of railway that it is becoming—that is, a non-passenger railway—I think those things are worthy of consideration in that contest.

Mr. ROCK: Mr. Frawley, I like the manner in which you present your case here—right off the cuff.

I would like to ask you a few questions regarding the so-called future plans of the CPR. It seems, according to statements made, that they want to get out of the passenger service completely. Do you feel that the CPR have done their utmost in modernizing their train service in regard to speed, et cetera? Do you feel that they have done anything to have speedier trains to compete with the air and bus services?

Mr. FRAWLEY: That is a rather difficult question for me, because you are getting over into the operating section. I will certainly say this, Mr. Rock, that if they are permitted to simply operate one train, this coming summer, I think you will find that they will be offering the public of Canada a very poor service. I travelled on the "Canadian" in the month of October and there were 21 cars. I wonder how many cars they are going to need to handle the July, August and September crowd? With a great big long grain like that and, perhaps two diesels, they cannot help but fall behind schedule. The more they fall behind schedule, the more dissatisfied the public is going to be and the more it will go to the air.

Mr. ROCK: Yes; but, Mr. Frawley, I have noticed during our travels across the country that most of the passengers who get on the train in the centre part of Canada are actually passengers who want to go from central point to central point, say from Winnipeg to, possibly, Calgary. It is not what you call transcontinental. It seems, according to some of the evidence, that when a person wants to get on the train, say, at Calgary, or Winnipeg, quite often they cannot obtain the reservations or sleeping car accommodation that they want because it is taken up, possibly in Montreal or out in Vancouver, by a customer who is travelling across Canada, instead of one who will just go over night to a given area within the Prairie Provinces. Therefore, there is a feeling that, for this type of service, possibly the dayliner would be needed rather than have the second transcontinental service.

What I am trying to bring to the attention of the Committee is the fact that if the CPR has downgraded, they have done this because they have not kept up with the times and are not competing with aircraft because they have been reluctant, technology-wise, to go into fast travel. As you know, just lately the CNR have made the breakthrough with the United Aircraft Company in going

into a \$10 million contract for fast trains which may go at between 110 and possibly 160 miles an hour on the same trackage. This is the biggest breakthrough, I think, in railway history in the world.

In your brief you mention the competition but you do not talk about the CPR being negligent in regard to trying to modernize their trains to gain speed to compete with air travel and even with bus travel.

Mr. FRAWLEY: No; you are quite right, Mr. Rock; at no place in my brief do I get down to that kind of specific; but I do use the general, broad term that they have downgraded the second transcontinental train.

I am glad you mentioned something about the difficulty of obtaining proper reservations. Certainly a transcontinental train must also do regional work, and when you have to deal with a train that is carrying transcontinental traffic as well as regional traffic you do have a difficulty from the standpoint of reservations.

I must be excused for calling to the Committee's attention something that has just been decided upon by the Canadian National Railways. I would like very much, Mr. Chairman, to read this—It is not long. It would then be on the record of this meeting. The *Ottawa Citizen* for Friday, May 27, had this Canadian Press dispatch:

Computer reservations set for CN passengers. Montreal. Passengers on Canadian National Railways will be able to make reservations through an electronic push button system as of January 1, 1967.

CN spokesman, Jean H. Richer, said Thursday the system centered in Toronto will be able to answer reservation request from 37 Canadian cities and probably in the United States, in less than 10 seconds.

The new reservations service, the only one of its kind in North America, will at first only accommodate coach reservations but will be extended early in 1968 to include parlor and sleeping car reservations.

The computer will make train reservations up to six months in advance, will add and subtract train space to and from its inventory memory so that last minute cancellations are possible while avoiding double selling of the same space.

Smaller communities will be served through the nearest connected office by using existing high speed telecommunications facilities.

I would like to put that on the record because I recall some of the members of the Committee questioning Mr. Crump and Mr. Sinclair and Mr. Emerson when they were here and they indicated a better reservation service might have put them into computers and they did not feel that was warranted.

Once again, we have the Canadian National in what I call its honest, aggressive manner of getting out to get passenger service, going into computer reservations.

Mr. SALTSMAN: I would like to follow up the line of questioning, started by Mr. Carter, regarding this question of allocation of resources.

It seems to me that this Committee has embarked on a rather significant kind of study and appraisal in which it is trying to sort out what appears to be a conflict between the role of a private corporation and what may very well be the national interest.

We have a situation where a private corporation says that it represents a misallocation of their resources to continue a certain line of passenger services. We have the representative of a provincial government here indicating that it represents a serious problem to the people in his province if this passenger service were not continued.

The question I would like to ask of the witness is: does he not consider that when we talk about misallocation of resources we really should be concerned about that term and its use as it concerns the national interest, rather than the concern of one specific private interest, or perhaps one phase of one specific private interest.

Mr. FRAWLEY: Mr. Saltsman, the first part of my answer to you is that I do not accept at all that the running of one more transcontinental train by the Canadian Pacific Railway constitutes a misallocation of resources. In my view that is just a handy expression, taken from the text-books of economists, to misappropriate—

Mr. SALTSMAN: I would like to clarify that point. I have painted the picture in its worst terms and I would not like to leave the impression that I agree with the CPR. I should have said that, if we take the CPR and look at their statement from the worst point of view, from their personal attitude. I am sorry to interrupt you, but I just wanted to clarify that point.

Mr. FRAWLEY: Well, then, Mr. Saltsman, in answering your question, whether I do not think that, in the national interest, the passenger service of the Canadian Pacific Railway should be improved and increased in the manner I have suggested, I must keep to my proper place. The national interest is something which is carefully looked after by other people. I am very much concerned with the interests of the Province of Alberta and that is why I am here, and I say that it is in the provincial interests of the Province of Alberta that these two transcontinental trains be operated by the Canadian Pacific Railway.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, I have two brief proposals that I would like to refer to Mr. Frawley for his comment, and I accept the fact that if there is any policy to them you may not wish to comment. I am really looking to your experience insofar as concerns the practical effect of them.

These are in the form of recommendations that we might make, of a long term nature, rather than dealing with the "Dominion" in an interim way. The first was put forward by Mr. Brazier, representing the province of British Columbia.

As you know we began our hearings in Vancouver and we were very disappointed at the reception of the city of Vancouver and the M.P.'s from that area! I except Mr. Byrne who is from B.C. and was a very interested member of the Committee.

Mr. Brazier was very helpful and he had one thought that seemed to be worth while. He suggested that we are almost down to a bare minimum anyway in so far as B.C. is concerned, and he suggested that the Canadian Pacific Railway be required to come to Parliament and ask for an amendment to the Railway Act if there is any further reduction contemplated in passenger service. This might get around the problem of the Act of 1880, and what the obligations are. Would you think this would have some practical effect?

Mr. FRAWLEY: The first thing I want to say about Mr. Brazier's brief is that he is an old friend of mine and he was good enough to send me a copy of the statement he made to the Committee. He seems to be a little more content than I am with respect to getting down to that last train. Mr. Brazier seems to think "Thus far and no further, we do not want any further reductions."

Of course, I go further than that. I say "Put back the second transcontinental train."

Other than that I am in accord with Mr. Brazier's views.

On the question of going to Parliament, that must have been something that arose during the questioning of Mr. Brazier. The other day—and you were not here, Mr. Bell, and I was sorry that you were not—I did talk about section 168 which at the moment requires a railway to go to the board for prior approval only when it is actually taking up the rails. I did suggest that careful consideration should be given to whether or not the railway should not be required to go to the board when it is going to discontinue passenger service. Perhaps, there could be a limit on the kind of passenger service, the extent of it.

That would be a safeguard. At least that would tie the board in a little more than they are now because you know what happened in the case of the "Dominion" to come back to that. They discontinued the train and the board then had to put in a suspension order.

Mr. BELL (*Saint John-Albert*): I appreciate that Mr. Frawley; but would not this have the effect of allaying the fears of those who think that even the "Canadian" may be downgraded now? This would take the matter into Parliament and would provide the safeguard that the people's representatives would have to deal with it, and the criticism that the board does not deal with these matters as impartially as it should, would be allayed?

Mr. FRAWLEY: I am sorry; I really apologize. I did not address myself to the point you were making.

I agree with that entirely. Whether Mr. Brazier had said so or not—and I am glad that he did—I would be of the same opinion. Let us get to Parliament. I make no apologies for saying that the board allowed the "Dominion" to be discontinued, against our protests. I think it would be a very good thing if Parliament had a say before such an important thing as interfering with the transcontinental passenger service be allowed to go into effect. I go along with that idea, Mr. Bell.

Mr. BELL (*Saint John-Albert*): Thank you very much.

The second proposal on which I would like to ask for your thoughts about its workability concerns the proposal that has been put forward by the Locomotive Engineers and others, that, amongst other things, we declare certain minimum passenger services as necessary. I appreciate that we are speaking of minimums and you feel that the "Dominion" should go back on; but separate from that, and from a long term standpoint, these various organizations say that we should declare certain minimum passenger services necessary in the national interest, along the lines of the MacPherson Royal Commission recommendations; and that some sort of an authority—whether it is actually the Board of Transport Commissioners or not—be involved in the administration of a subsidy. This would have the effect, in my opinion, of dividing, in some way, the responsibility for passenger service between the two railways and they would

have to perform certain good passenger service in order to qualify for this subsidy. In this way, we would have a better check on the losses of the passenger service and it would equalize the responsibilities and the resulting financial outlay of the Canadian people as between both the Canadian National and the Canadian Pacific.

Would you like to comment on this, because it is one of the ideas I feel we are going to have to come to when we finally make recommendations.

Mr. FRAWLEY: Yes, Mr. Bell, I would like very much to comment.

Really what you are proposing and what I have said in this statement are not very different. There is one important exception, though. My people are not subsidy-minded and, personally, I subscribe to the views of the people I represent. That is why there is no question of subsidy in the statement which Alberta is presenting. Let us say, Mr. Bell, that we have arrived at a point where it is practical to say, "That is a minimum, and that border must not be crossed". Then you say, "If that minimum cannot be carried on at a profit, then the national treasury would look after it". I part company there. I say the Canadian Pacific shareholders will look after it. In the case of Canadian National the shareholders are looking after it anyway. The shareholders are the people of Canada.

Mr. BELL (*Saint John-Albert*): Do you think that the recent changes in CPR management, whereby certain new officers do not have a full railway passenger background, may mean that the company would not be interested. I say this with all due respect to the ability undoubtedly, from an over-all corporation stand-point, of the new officials. Do you have any fears that because the old railway men of the past are not as involved directly that we will have a less interest on behalf of the company—a lesser interest than we already have—in the railway passenger part of their operations?

Mr. FRAWLEY: I do not think it is unfair at all to say—and there is certainly no reflection on the ability and the integrity of the fine people who are running the Canadian Pacific Railway—but I do not think it is unfair to say that they are oriented toward this investment and industrial complex into which this great railway has been transformed by the creation of, and the success which has attended, the separation of Canadian Pacific investments. I think that must be always kept in mind in considering what you are advancing, Mr. Bell.

Mr. SHERMAN: Mr. Frawley, I really just wanted clarification on one specific point, and that is the question of subsidies. I take it there is absolutely no question in your mind and you are unequivocal on the question of subsidies. That is, that, in your view, the CPR is not entitled, and should not be considered as entitled, to any subsidy for operating the "Dominion" passenger service.

Mr. FRAWLEY: Yes, I do not like to say "unequivocal" because it is a strong word and I do not want to be completely unequivocal, but I do say that one can make out a case very easily along the lines of my case. When you have this kind of corporation, namely, the Canadian Pacific Railway Company, I say that we regard it as somewhat of an incongruity that a corporation as wealthy as the last annual report shows Canadian Pacific Railway to be, should be permitted to abandon essential passenger services on the ground that the statistically segregated passenger department is unprofitable. That perhaps sums up my position.

Mr. SHERMAN: Yes, it does sir; thank you. This leads really to the question I wanted to ask. In my province of Manitoba, as you know, there is anxiety in

certain quarters over the fact that if the "Dominion" passenger service operated by the CPR, or any passenger service for that matter, can be effectively proven to be unprofitable—that is, in itself a money-losing proposition—and if this Committee, or the Parliament of Canada, should take the position that the CPR should be invited and directed to maintain that service regardless of the loss picture on the books—there are quarters in my province, as I say, who feel that the burden of that operation should not fall upon the freight shipper. This is an argument with which you are fully familiar.

Mr. FRAWLEY: I quite agree.

Mr. SHERMAN: Do you agree with this?

Mr. FRAWLEY: For many years I have advanced it, along with counsel from Manitoba.

Mr. SHERMAN: The burden should not fall upon the freight shipper?

Mr. FRAWLEY: That is right.

Mr. SHERMAN: Is there any way that you would suggest that the two positions can be reconciled so that the burden is not to fall upon the freight shipper? If, in your view, and in the view of the majority, there is no valid justification for a subsidy, in other words, for placing the burden on the federal treasury—on the Canadian taxpayer—how do we defend this latter position? How do we direct the CPR to maintain this service with that loss picture accruing to it?

Mr. FRAWLEY: Remember, Mr. Sherman—and perhaps it is just as well that you asked me in the beginning whether I was completely unequivocal—I am talking about the one thing, one second transcontinental train; I am not suggesting that the Canadian Pacific Railway Company should be frozen in all its passenger services wherever they are today, and that all the unprofitability of all of those railways be charged up to the shareholders. I am just sticking to my last. I say that they can be directed to operate a second transcontinental train and that would not constitute misallocation of resources, and that that should not be subject to a subsidy from the national treasury. But the operation of that second transcontinental train, which is all I am addressing myself to—that can be taken care of out of the other incomes which Mr. Brazier mentioned in Vancouver, or out of Canadian Pacific investment profits, which is just another way of saying the same thing.

Mr. SHERMAN: Is it possible to prevent the CPR from placing that burden on the freight shipper, though?

Mr. FRAWLEY: Oh, yes. There is a very fine way of doing it, Mr. Sherman. That takes us back to the fight we had from 1946 to 1958. They put the burden on the freight shipper, because they had an item of expense just as real as the wages of the engineer—an item called "passenger deficit". That is how the burden went on the freight shipper. That should be completely eliminated, if the national treasury has to look after that, for all the passenger deficits; but remember, I am talking about this second transcontinental train.

The CHAIRMAN: Mr. Frawley, that is the last question members have, but there is one thing that has been concerning me. You have mentioned, and rightly so, that your presentation is on behalf of the province of Alberta, and that you are not really, in a sense, concerned with the national picture from one end of the country to the other as far as, let us say, the second transcontinental

train is concerned. You say, "As far as the province of Alberta is concerned, we want this second transcontinental."

Just assuming that it is found that the province of Manitoba and the province of Saskatchewan—and we know that the province of British Columbia is really not concerned so much with this second transcontinental train—but assuming that Manitoba and Saskatchewan found that an improved dayliner service was sufficient for them, one that was run efficiently, what then is the position? It places this Committee, and the members generally, in a difficult position. What do we do with one province. Do you follow my reasoning?

Mr. FRAWLEY: Yes, I know exactly what you mean, Mr. Chairman.

The CHAIRMAN: The province which says, "We want this second transcontinental"?

Mr. FRAWLEY: We are not difficult to get along with in Alberta.

The CHAIRMAN: I am not saying that. I am looking for some help.

Mr. FRAWLEY: I have suggested, and I think, that if you reach that stage in your thinking and you had Manitoba, Saskatchewan and British Columbia content to have the second service done by dayliner and we were holding out for a fully equipped transcontinental train, I would like to think that we could resolve that—that the provinces could resolve that apparent difference of points of view.

The CHAIRMAN: I did not necessarily want to say this is the plan they accepted. I say just assuming they did.

Mr. FRAWLEY: That is right. I did not think that British Columbia would be satisfied with a dayliner. British Columbia made quite a fuss about the fact that they carried all the people and they just had to have first-class service to get all those people over the mountains down to the west coast. I do not quite know whether British Columbia would be satisfied with a dayliner service. I know that Saskatchewan has said: Give us a dayliner service between—first it was Brandon to Moose Jaw—and then, wanting to enlarge it a bit, they said, Winnipeg to Calgary; they would be rather satisfied with a dayliner service, but I would not think British Columbia would be taken care of.

Mr. PASCOE: I just want to clarify this. They would sooner have a second transcontinental, but they suggested that a rail liner service might be acceptable as a last alternative.

Mr. FRAWLEY: All I say is that you should not regard us as standing in the way and of being obstructionist to the point where suggestions that you have in mind would fail because we were holdouts.

The CHAIRMAN: No, no. I did not imply that, Mr. Frawley. I assumed that this was the picture because, you had stated: "I am only here for the province of Alberta", and that is it. I just wanted to get a clear picture, if the other provinces said "fine". I wanted to get the province of Alberta's stand.

Mr. FRAWLEY: That is right, Mr. Macaluso. I wanted to convey the impression that we were really taking a large view of the matter and not a parochial one I hope that does not lead us into an impasse.

Mr. BELL (*Saint John-Albert*): This is quite important, and I am glad the Chairman asked this question.

Would it not be fair to say that there is consideration of the second transcontinental passenger service and, also, these regional dayliner types of

proposal, and it could be that Alberta puts more emphasis on the former than some of the other provinces. It is just a question of emphasis.

Mr. FRAWLEY: I think that is a fair statement.

The CHAIRMAN: Well, gentlemen, that is the end of the questioning. I would like to thank Mr. Frawley for his presentation and for being here for a day and a half with us. We appreciate very much, Mr. Frawley, that you have appeared before us. We have now heard from all the provinces officially.

Gentlemen, I would suggest that we get into some other business.

Before doing so, I do want to bring to your attention a letter received from Mr. J. H. Sherrett, industrial commissioner from the town of Kenora, who appeared in Winnipeg. The letter is dated May 18, 1966, where he answers certain questions that were raised in the Committee, about the taxes that are paid by the Canadian Pacific Railway Company to the town of Kenora.

I would ask for a motion that this be printed as an appendix to our minutes. It is moved by Mr. Reid and seconded by Mr. Fawcett.

All in favour. Carried.

Mr. CANTELON: I want to raise a matter of privilege—

The CHAIRMAN: When we finish detailing this I will hear your question of privilege

There is a letter and a short additional submission by Mr. R. G. McCulloch, alderman for the city of Red Deer, dated May 17, 1966 in which he states:

It was a new experience for me to appear before your Committee. May I say I enjoyed this experience. I was impressed by the Committee's meticulous attention and respect for the submission of each individual who appeared. I came away from the Calgary hearing convinced that Canada's very pressing transportation problems are receiving the careful attention they deserve. Perhaps the next cross country movement of a committee such as yours might travel to the beautiful park land area of central Alberta with a visit to Red Deer.

With best wishes on behalf of the mayor and council, the city of Red Deer.

per Alderman R. G. McCulloch.

I would ask that his additional submission be printed as an appendix to our Minutes and Proceedings today.

Moved by Mr. Olson and seconded by Mr. Pascoe.

Carried.

Mr. CANTELON: This is relatively insignificant, but I did not want anyone to think on reading page 596, where I made a comment about two thirds down the page that I knew anything about Seattle. I think probably in picking it up with the tape they did not get the first few words, because this was in interjection.

What I said was: "The CNR does that regularly."

The CHAIRMAN: It is noted, Mr. Cantelon.

Gentlemen, I think we should move on to the further agenda, but perhaps we can do that without this matter on tape because, it would normally be a subcommittee meeting; but I would prefer to do it with the Committee as a whole. I do not know if it is necessary that this matter be taped as part of the Minutes. I would think not.

Mr. OLSON: Mr. Chairman, if I may, I would like to make a motion respecting the disposition of some of the subject matter before us so that we can make some positive suggestions, and I would respectfully suggest that the motion ought to be in the Minutes.

The CHAIRMAN: Yes; I would think that if there is a motion it should be in the Minutes.

Mr. OLSON: May I do that now, Mr. Chairman?

The CHAIRMAN: Yes.

Mr. OLSON: Mr. Chairman, I move, seconded by Mr. Cantelon, that the Committee prepare an interim report to the House containing recommendations respecting the CPR passenger service requirements for the tourist season in 1966 and for the additional accommodations required in 1967 to meet anticipated demand from Expo 67 and Canada's centennial activities. And, secondly, that the subcommittee be instructed to appoint a committee to draft the report forthwith.

The CHAIRMAN: It is moved by Mr. Olson and seconded by Mr. Cantelon that the Committee prepare an interim report to the House containing recommendations respecting the CPR passenger service requirements for the tourist season in 1966 and for the additional accommodations required in 1967 to meet anticipated demand from Expo 67 and Canada's centennial activities. Secondly, that the subcommittee be instructed to appoint a Committee to draft the report forthwith.

Mr. OLSON: In speaking to the motion, Mr. Chairman, I suggest that we require this interim report immediately because of the time factor respecting the tourist season for the summer of 1966 which is nearly, if not already, at hand.

The second thing that I would suggest is that we need to dispose of this matter particularly, because this Committee has had the estimates of the Department of Transport referred to it.

I may be presumptuous to suggest this, but there is a disposition in the House, I think by all parties, that we should try to complete the consideration of these estimates before the summer recess, and time is running out in that respect.

The other matter is that later this year we could perhaps prepare a final report involving the whole of the subject matter referred to this Committee.

In addition to that, later on this year I think it is fair to say that we are going to be charged with the responsibility of perhaps looking into some problems that have arisen with respect to the operation of the St. Lawrence seaway, and certainly we will have the new railway bill referred to us sometime before the end of this session.

Therefore, if we are going to make any progress and do something useful in this whole matter of transportation, and in view of all of the work that is ahead of us, I think that the time has come when we should, in fact make some positive steps, and my suggestion is that there should be an interim report respecting the two matters in the motion, and that it is appropriate to do something about those now.

Mr. ROCK: Mr. Chairman, the experience I have had in the past, especially when we were studying water levels, was that once we made an interim report

we expected to go back to study more about water levels and it seems it never came about.

I have the feeling that if we have an interim report now, the most important question that should be asked of the CNR and also of United Aircraft may not be heard.

I feel we have time between now and the summer recess to have this important matter discussed. We could have United Aircraft before us. I feel this is of the utmost importance. It is a breakthrough in speed, and, according to our term of reference, future plans for passenger service is one of the items of the utmost importance. This breakthrough that we have, which CNR has accepted and on which they have negotiated a \$10 million contract and I feel that is of the utmost importance, before we have an interim report we should have the United Aircraft people here. Immediately after them we should have the CPR back again, and make a complete report rather than an interim report.

The CHAIRMAN: Mr. Rock, if I may sum up the feeling of the members, may I say that I think you need have no fears whether this Committee makes an interim report or not in that regard. I give you the undertaking of the Chair. There are a great many witnesses yet to be heard on the terms of reference that we have on the CPR passenger service, including the Board of Transport Commissioners, the Independent Cost Analysts, the United Aircraft people, where I see the resolution was passed on Friday, and the CPR officials. I can assure you that you need have no fear on that. You can take my undertaking, if it is sufficient for you, that this matter will not be shelved after an interim report comes about.

Mr. Byrne, you are next.

Mr. BYRNE: Mr. Chairman, this Committee set out to hear a great deal of evidence and a multitude of briefs, all of which we accepted as our agenda from time to time. We have heard a large number of briefs and certainly I, as one member of the Committee, am not, prepared to accept all of the evidence from either side; that is, the evidence from the Canadian Pacific Railway on what they believe they are doing in the best interests of Canada, nor am I prepared to accept all that has been said on the opposite side.

For instance, there are at least two representations that were made on the western prairies—they were quite varied in accuracy—which I would like to have clarified before coming to a conclusion at this moment on what should be done with the existing services, or the services that have been abandoned.

During our hearings in Medicine Hat one witness, Mr. Nelson, did not have a prepared statement but he undertook to read some excerpts from a booklet prepared by Canadian Pacific Railway called "Facts and Figures".

Mr. OLSON: That was in Regina or Moose Jaw.

Mr. BYRNE: Yes, Moose Jaw; pardon me.

On his reading a statement like this I questioned the witness if he were at that moment quoting Canadian Pacific Railway booklet and he said yes, that he was quoting right from the horse's mouth. Well it turned out that he was reading from notes that he had made in the margin of the book, seeking to present a picture that was not in accordance with the facts.

Mr. Mauro, in Winnipeg, commenting outside of his brief, said, among other things, that the Canadian Pacific Railway, when entering into an agreement with the government to construct the Crowsnest Pass railway, were given \$11

million—that there was a grant of \$11 million—plus a large acreage of land which developed into prosperous mineral resources, and then went on to say that this resulted in their attaining Consolidated Mining and Smelting Company—Cominco—which is undoubtedly a subsidiary which is extremely profitable. Again, what he stated was not in accordance with facts as I knew them, and still do not.

We have heard only one presentation, which was made at the outset of our committee hearings, by the Canadian Pacific Railway whom, after all, we are investigating under the terms of reference, to determine whether the railway's present program and future plans for passenger service on the lines of the Canadian Pacific Railway to meet the effective demand of the public for such service, and the effects of such program and plans we refer to the standing committee. Nowhere in these terms of reference does it state that we are to make recommendations with respect to the "Dominion" service or the "Canadian" or other services on a piecemeal basis. We are to study the entire program and then make a report.

I am prepared to make an interim report that we should hear from those people who are being investigated at this time, in order that we may clear up a number of matters which have been brought up by these briefs. Many members have indicated, throughout our travels in western Canada, that they had a great deal of ammunition which they would use in questioning the Canadian Pacific Railway officials when we returned to Ottawa. I think we should hear the Canadian Pacific Railway before we make an interim report.

Mr. REID: Before we make our interim report I would like to have a "go" at the CNR passenger people. They have been used as the great white fathers, so to speak, in leading the way into providing improved passenger services. I would like to have a closer look at the CNR's operation.

Secondly, I want to hear the CPR again. As Mr. Byrne suggested there is a great deal of information we received on the prairies which I think the CPR ought to have a chance to answer before we make an interim report.

Thirdly, before I would be prepared to make an interim report, I would like to have the minutes of the meetings, which have not come around yet. We are still to a large extent in the dark about some of the questions and some of the answers that we got in our questioning on the western trip.

To deal with Mr. Olson's point of urgency, I think perhaps, while we are waiting for other witnesses to come forth, we could start on the Department of Transport estimates.

The CHAIRMAN: Mr. Reid, this matter of the minutes is something which has been troubling the Chair since we returned from the western trip. We have received only the minutes of the meeting in Vancouver, B.C., on Saturday, May 7.

I have been after the clerk all week about them. He has been working pretty hard with the printing branch. This morning we followed it up again, and there is some problem of being overloaded, I understand.

I have been trying to impress upon the branch how important these minutes are for our interim report and for CPR's rebuttal of some of the briefs.

I would be very optimistic in saying to members of the Committee that we will have the minutes in a short time. I am informed that the Calgary minutes

are at the printers now; the Medicine Hat minutes are at the printers; Moose Jaw is not edited yet; Brandon is not edited yet; Winnipeg is not edited yet; and Port Arthur is not edited yet.

Mr. REID: My point was, with respect to Mr. Olson's point, that while we are awaiting these minutes perhaps we could start work on the Department of Transport estimates, or call the CNR passenger people.

Mr. FAWCETT: Mr. Chairman, I am speaking, of course, in support of Mr. Olson's motion.

In the first place, in connection with what Mr. Rock had to say, I do not see why an interim report should interfere in any way with the other minutes of this Committee.

Mr. Barnett suggested that he does not think our terms of reference permit us to make recommendations.

The CHAIRMAN: They do.

Mr. FAWCETT: If we could not make recommendations I do not know what the point would be in our sitting here.

Mr. BRAND: I understand that we are not to single out any specific service; we are to make recommendations and to study the entire passenger service.

The CHAIRMAN: There is nothing to stop this Committee from making an interim report on any part of the terms of reference that we are investigating.

Mr. FAWCETT: I would agree with Mr. Reid that it would be very helpful to have the CNR first; but I still have to get back to this matter of urgency. If the "Dominion" is to go on this summer it should be advertised now, not even two weeks from now. In fact it should be in the process of being set up now.

I think, on the basis of evidence we have heard, that there is a very great need for the "Dominion" particularly during the vacation period. I do not think there was any evidence that we heard that did not support this.

Some witnesses, I will admit, did mention alternate service but I think, on the whole, the main concern in the first instance was to have the "Dominion" reinstated, at least for the summer months.

To get back to the point of operating it this summer, I am not one that believes that there is a great profit in passenger service, but I do think that the CPR can get enough business at least to break even this summer on the "Dominion"; and I think it is very urgent that the "Dominion" should at least be reinstated for the summer months.

The CHAIRMAN: We are not talking about the merits of an interim report right now, Mr. Fawcett, we are talking about whether an interim report is to be made.

Mr. FAWCETT: If we do not put in an interim report how are we going to take any action? That is all I have to say.

Mr. CANTELON: I think everybody who has spoken has said something that I was going to say, except Mr. Byrne. Of course, I take issue with his view that it is beyond our responsibility.

I feel that there is some urgency in this and this is why I seconded the motion. I agree entirely with what Mr. Fawcett has said, that if it is not done immediately—unless the CPR decide on their own that they are going to introduce the "Dominion" this summer—it will not be done, and hence the tourist season will go by with very inadequate services, particularly to the Pacific coast.

On that basis I think that it is worth while that we should bring in an interim report.

Mr. DEACHMAN: There are a couple of points I would like to see cleared up before any report is written.

I would like to hear some explanation about the "Rapido" train which the CN proposes to put on, and also to hear something from the CN on the subject of computer ticket sale control.

Here are two acute arguments which were brought forward by the CPR. I think, before we can move conclusively to any kind of report, or any interim report, these two points ought to be reviewed, first with the CN and then with the CPR.

Mr. SALTSMAN: Mr. Chairman, I think that it is possible to deliberate so long that the question of whether you are going to take any action or not becomes academic. It may be too late for that sort of thing.

I would like to speak very briefly on the question of the credibility of some of the witnesses. Of all the witnesses whom we have heard before this Committee, very few of them could be considered as not credible. I think there have been the odd witnesses who have raised some question in my mind, but by and large we have had a very responsible body, a very expert body, of witnesses appearing before the Committee.

A number of common factors emerge, a number of common grounds of agreement emerge: One, that the "Canadian" should not be discontinued and we should move to ensure that it does not happen. Secondly, there seems to be common agreement that the "Dominion" should be restored; and there is a great agreement that an urgency exists to do it now. For this reason I would support the motion by Mr. Olson on the basis of this urgency and on the basis that I think there has emerged, from the work of this Committee, a general consensus.

Mr. PASCOE: Mr. Chairman, I would like to support the motion that this Committee make an interim report as soon as possible.

I would suggest that an interim report is, as others have said, a matter of urgency because of the nearness of the tourist and the holiday season. From reports I have heard CPR officials may be waiting for some direction from this Committee regarding the expected heavy June, July, August and September passenger demands.

I might go so far as to say that I have heard reports that the CPR is presently holding "Dominion" equipment available for possible use this summer. Because of this I consider that an interim report should be made now.

Mr. BYRNE: Mr. Chairman, I am wondering if the clerk could not get in touch with the Canadian Pacific Railway officials to determine whether they are prepared again to appear before the Committee, having regard to the fact that they have copies of the briefs that were presented and they had officials attending the meetings.

The CHAIRMAN: If I could help the Committee on this—I was going to mention it: On that point that you raised, when we returned from the West I received a telephone call from Mr. Sinclair, the President of the Canadian Pacific Railway. I advised him that the Committee was intending to make an interim report, and I think it is imperative that this Committee does make an interim report. That is my personal opinion.

Mr. Sinclair said that he had received all the briefs, but that of course he had no knowledge of the questioning that had taken place and would like to examine the questioning in detail.

He did indicate that he wished to appear before the Committee before an interim report is made and that I should advise him when we would be able to receive the minutes. I have not called him back, because I did not have any definite information until this morning that there would be a long delay in receiving our minutes.

I would suggest to the Committee—and this is the feeling I think—that the motion is in order except for the second part, that the subcommittee be instructed to appoint a committee to draft a report forthwith. I think that such an interim report should be drafted forthwith because the subcommittee have that power anyway, Mr. Olson.

Apart from that I would think that this Committee would be subject perhaps to some undue criticism if we did not allow the CPR to rebut, if they wished to, some of the briefs; and since they have indicated that they wish to appear before an interim report is made I think it would be wise, since the minutes are not going to be available, to call the CPR today—and some of the representatives are still here—to have Mr. Sinclair and his officials appear, let us say, forthwith, to make a presentation before an interim report is made.

I think an interim report is in order and should be made by this Committee, but I do feel that we would be subjecting ourselves to some undue criticism if we did this before the CPR was heard. I must say that I am expressing a personal opinion that we need to wait for the CNR at this time, but we do have the problem which was brought out by Mr. Olson that we have a real log of work ahead of us, including the estimates. I have been informed by the Minister that he would like to appear, to have his estimates put through, and we would have to suspend these CPR hearings to hear the estimates, and during the discussion of the estimates there is no doubt that the matter of seaway tolls will come up. It might take a little longer than we anticipate in passing the estimates through this Committee.

The CNR is waiting to appear, Air Canada is waiting to appear and we still have many witnesses to be heard on the CPR matter, so the matter of urgency does arise in that estimates have to be passed through this Committee within the next week

Mr. BYRNE: Would an amendment be in order then?

The CHAIRMAN: I would suggest to members in general that we call immediately the CPR officials and then move to make the interim report.

Mr. Bell is on next. I just wanted to pass on the information that Mr. Sinclair gave me.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, I have not got anything too different to what has been set forward. I believe that we have a good committee going, we had good hearings out west and we should make an interim report.

However, we have to look practically at the effects of this report even though it is not necessary that anybody pay any attention to the report. I think it is like a judge making a decision. He wants to know the practical effect of it.

Two things come to my mind. I think that we owe it to the CPR to find out—whether they officially appear or not can be looked into—if this is physically

possible. We have heard this, but we do not know for sure whether it can be done.

I would, secondly, like to know about the time element. Is it possible now, by fast advertising, to get into the tourist business? I would hate to see us put the "Dominion" back on and find that it is too late, and have a very poor season that would hamstring us for 1967.

It might be that the steering committee, or a committee, could be appointed to move on this, whether or not the CPR were given the opportunity to officially appear; certainly we could not refuse them if they wanted to appear.

The CHAIRMAN: Mr. Sinclair called to say that they wanted to appear before an interim report was made.

Mr. Bell (*Saint John-Albert*): If we are obligated we should get moving on it right away.

Mr. Rock: I just wanted to say that I agree with your remarks. However, there is one important fact that you have forgotten and to me it is one of the most important matters. I feel that United Aircraft, because of this breakthrough for future train travel should be here at least a day before the CPR, so that we can have some facts about the technical changes in faster trains on the same railroad tracks. This is something of the greatest importance.

The CHAIRMAN: After the report?

Mr. Rock: I do not think so, because we cannot question them after the CPR. Once they come the second time that is the end of them.

The CHAIRMAN: They will be back again the third time.

Mr. Rock: That may be, but to me the whole future of train travel is based on faster trains, and we seem to be forgetting this.

The point is that the CPR is coming back, and there are a lot of questions I would like to ask them at that time about faster trains. I have asked them about this before and I did not like the answers. With this new information they will have to change their answers.

The CHAIRMAN: The only reason for CPR coming back at this time would be to speak in answer to some of the submissions that we have heard in the West. They will be coming back at the very end again, after we have finished with the Board of Transport Commissioners, United Aircraft, Independent Cost Analysts and others who wish to appear. There are others who wish to appear.

The CPR will be coming back, as they indicated in their first appearance before this Committee, because we still have to go into the reservation system. Their appearance at this time, as was indicated to me by Mr. Sinclair, is to rebut some of the charges that were made in the briefs during our western trip.

Mr. Rock: You are absolutely right; I agree with you. But the point here is this. First of all, there is a motion made by the member from Medicine Hat, and no one knows here whether we agree with that type of action for an interim report or not, and yet we are calling CPR back here for that purpose. If this is what is going to take place we are completely out of order.

The CHAIRMAN: They have asked to come before the Committee for that purpose.

Mr. Rock: I would like to know about this motion.

The CHAIRMAN: I would think, Mr. Rock, that from our trip out West and here enough information has been gathered by CPR officials that there would be an interim report made by this Committee.

Mr. CANTELON: I do not think it prejudices our case at all to make an interim report. I think there is an urgency in this interim report. There will be a main report which will deal with the whole matter of passenger service, and when that comes up then I think this technological, developmental thing that you are so interested in—and I am, too, for that matter—can be discussed and a recommendation could be made then. I do not think there is any possibility of a recommendation on that particular thing being made in the interim report, because that is not a question that is facing us in the interim report.

Mr. CARTER: Mr. Chairman, what you are proposing is that we defer the interim report one stage until we hear from CPR and then carry on from there.

Mr. DEACHMAN: Mr. Chairman, may I put an amendment at this point? The amendment to the resolution would be that we proceed with the writing of an interim report immediately following the recall of the CPR, and that the CPR be recalled forthwith.

Mr. CANTELON: I second the motion.

Mr. OLSON: If I may speak to the amendment, Mr. Chairman, I want to emphasize, as strenuously as I can, the time factor.

I can appreciate the reason for the CPR asking to come back to rebut some of the matters that were raised in the many hearings but let us be fair about this. The CPR have had more time before this Committee than any other witnesses, and quite properly so; but they have not only had a little more time; they have had probably ten or twenty times as much time as any other witness. I suggest to you that there are people who may want to rebut what the CPR has said, and this could go on interminably.

I think we have given the CPR an adequate opportunity to state their case in the first instance, and I would be willing to hear them again—and I am sure we will—but we get back to this matter of the time factor. I suggest to you that if a drafting committee went to work on this immediately the minimum time in which we could expect them to have a report back to this Committee in the form that would be acceptable to this Committee would probably be ten days or two weeks. That takes us nearly into the middle of June, Mr. Chairman. This time factor is becoming so important that if we are going to do anything at all so far as the summer season 1966 is concerned, surely, in fairness to the company, and to the effectiveness of what this committee can do, and the responsibility that we are charged with, we should do something positive by the middle of June. Otherwise there is no point in doing it at all. Therefore, we get back to this urgency in the matter of time.

If the CPR had not been heard adequately in the first instance I think that this would be fine. I want to repeat that we certainly should hear again from the CPR, but we are dealing with something that is coming up at this moment.

I say, too, that the supplementary judgment of the Board of Transport Commissioners did, in fact, order the CPR to retain and maintain the equipment necessary because it may be required in the summer of 1967. If that is true—and we have to presume that they are doing this—then that equipment is there now. I suggest, from what we have heard everywhere, that there is not going to be any great obligation placed on the company to do this for 1966 as well as 1967.

In other words, I suggest that if we are going to delay this interim report for the summer season of 1966 even another 10 days—perhaps even less than that, Mr. Chairman—then there is no point in it. I would suggest that the Committee members consider this time factor and give it the urgency it deserves.

Mr. ALLMAND: Are you prejudging that the report is going to suggest that "The Dominion" be put back on in a certain—

Mr. OLSON: What the motion says—and it says it very clearly—is that we prepare a report respecting the tourist season of 1966.

Now, if we run right into the tourist season—and we are in it now—then there is no point in making it. I am not saying what is going to be in the report, but I am saying that if we are going to deal with it at all adequately and be fair to the company, so that they can deal with the recommendation if the recommendation is to reinstate this service, or to provide some expanded service to what the "Canadian" offers, then we have to do it within the next few days or, as Mr. Saltsman pointed out, it will just be an academic exercise.

I would point out that the motion does indicate a definite action to be taken—that the Committee prepare an interim report to the House containing recommendations respecting the CPR passenger requirements for the tourist season in 1966, and for the additional accommodations to be required in 1967, to meet anticipated demands for Expo '67 and Canadian Centennial activities. Therefore, in a sense, you are being definite in your motion.

There is just one other point that I would like to make and that is that the provinces as well as a number of the cities have, in fact, already appealed the Board of Transport Commissioners' judgment to the Privy Council. The Minister of Transport has indicated to all the petitioners that it would be quite in order and proper for them to state their case respecting anything that may be involved in this matter before this Committee.

It just boils down to this time factor; either we do something within a week or we are not being fair to the company from the viewpoint of having anything done for the 1966 tourist season.

Mr. BYRNE: Mr. Chairman, I think that this Committee should seriously consider the recommendation which is outlined in Mr. Olson's motion. After all, we must realize that the Board of Transport Commissioners has been set up by Parliament for the express purpose of adjudicating the varied questions. If we are to make the recommendation which is indicated in that motion, without having heard all of the evidence, we are, in effect, repudiating the Board of Transport Commissioners, and it is certainly a vote of non-confidence in that body.

Therefore, before making that report, I believe we must hear those who would be in a position either to confirm or rebut some of the evidence we have heard.

The board has determined that the passenger service is not essential at this time. The company in question have given evidence that they believe it is not required at this time. I think we owe it to the Canadian Pacific Railway—and surely they can be heard before the end of this week—to give further evidence before an interim report is made; because it is going to have very serious implications if we are to report in that time.

The CHAIRMAN: On this, Mr. Byrne, I disagree with you on this matter. We are not concerned with the decision of the Board of Transport Commissioners, or how they arrived at it, or whether we reverse their decision. I do not feel this Committee is concerned with that. They are a body; they have come to a decision. We have a reference to this Committee, and we have a reference that we are to make a report. I do not feel that we need, or can, be influenced by what the Board of Transport Commissioners did. This Committee has nothing to do with their decision.

Mr. ROCK: I am making the point, Mr. Chairman, for this reason: First of all, it is a judicial body—

An hon. MEMBER: No; it is a regulatory body.

Mr. ROCK: If we have any recommendations to make, we can recommend that they change certain methods that they use, but we cannot turn around and say, "You must put a train back," I do not think that we have the power to do that.

The CHAIRMAN: The Committee has only the power to recommend; it has no power to direct.

Mr. ROCK: Can Parliament also force the issue when they have a body here which is named by Parliament?

The CHAIRMAN: I disagree with that.

Mr. REID: Mr. Chairman, would it not be possible for the Committee to get around to striking off its drafting committee which could start going through the earlier testimony and doing the background work that has to be done for this report, at the same time as we are hearing the CPR officials, which I think could be done at the end of this week? You would have the two bodies working simultaneously.

The CPR would have the opportunity to appear and to rebut what it wished to rebut, and, at the same time, the Committee would have had the advantage of the drafting committee already doing the background work.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, I think, first of all, that we should bring the steering committee in. I think that the steering committee is the important subcommittee of this Committee.

I would like to suggest—and I feel that we are not too far apart—that the steering committee be instructed, along the lines of Mr. Olson's motion, to begin immediate work on this, and that they also make contact with the Canadian Pacific Railway concerning all the practical recommendations that we make.

I would add the proviso, according to what the Chairman has said, that if the Canadian Pacific Railway request that they appear again on this particular matter before the Committee we will have to grant them that privilege.

The CHAIRMAN: Well, they have already requested this. I was telephoned by Mr. Sinclair immediately after I returned from the west, and he said that they wished to appear before any interim report was made—that they would like to have the opportunity to do so; they definitely stated that they wanted to appear. That is why I am bringing it up with the Committee.

Mr. Howe (*Wellington-Huron*): I think we are faced with whether we want to make a blanket resolution that "The Dominion" be reinstituted, or get into a full examination of all the pros and cons—the time schedules, advertisements in the papers, and with rebuttals all over the place. This makes it

complicated. I am inclined to think I favour the former—that we put it on that basis—because this will open it up too much.

I suggest, Mr. Chairman, that the steering committee get in touch today with the Canadian Pacific Railway and find out what would be the practical effect of a motion that “The Dominion” be reinstituted right away, and report back to us.

If the CPR wants to appear formally then we will have to consider this in the Committee.

The CHAIRMAN: I think it is too important to pass off with a motion.

Mr. SHERMAN: I would just like to say, Mr. Chairman, that I think if the CPR has specifically requested that they be permitted to appear before us again before we issue an interim report we should defer to that request and permit them to appear before us again. That request has come from the president of the CPR, the CPR service is at issue here. It was the CPR who appeared first. On that basis this investigation was carried out across the west. I think that we should defer to that request and allow them to appear before us again.

I agree with Mr. Olson's philosophy and his motion. I believe that time is of the essence. There is no reason why it cannot be communicated to Mr. Sinclair that time is of the essence, and that we are going to prepare an interim report; and that because of that, if they wish to appear before the interim report is issued, it will have to be within the next 48 hours, because we are going ahead on the interim report.

Mr. OLSON: I would like to say, Mr. Chairman, that I do not see any conflict in what Mr. Sherman and Mr. Bell said, and even the amendment concerned. I do not see why we have to postpone setting up the committee to draft this and getting that started. The second hearing of the CPR can be—

The CHAIRMAN: There is only one thing, Mr. Olson; if your motion had been that the subcommittee be instructed to prepare an interim report to the House containing a recommendation, I think that would have been a report which could probably have been accepted immediately, and we could still, if the Committee wished, call the CPR. I think, the aspect that might be causing some of the members problems is that you are definitely stating what the report should contain.

Mr. OLSON: Mr. Chairman, not what it should contain, but the matter that it should deal with—the summer season and the requirements for Expo '67 and the centennial. It does not say what the recommendation should be.

An hon. MEMBER: That was not my understanding.

The CHAIRMAN: Well, yes, I agree; it is respecting recommendations.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, do we sit while the House is sitting.

The CHAIRMAN: We do not have that permission, but we can ask for it.

Mr. BELL (*Saint John-Albert*): Would it be an idea to hold the motion in abeyance and have the steering committee work on this between now and 3.30 or four o'clock, and get the full information on the matter of Canadian Pacific Railway's second hearing?

The CHAIRMAN: I was just wondering if it would meet with the approval of the mover and the seconder if, perhaps, you would allow the Chairman to call

Mr. Sinclair as soon as we adjourn to find out when they would be prepared to attend? As Mr. Sherman has said, it is imperative that they attend within 48 hours. I could indicate this to the Committee on the resumption.

Mr. DEACHMAN: I think there is a point of order in respect of what Mr. Bell has said regarding passing any motion to sit while the House is sitting and having that effective this afternoon. This would not provide for a notice of motion and therefore would have to go with the unanimous consent of the House. We know that there are certain members of the House who are not disposed to let such motions pass unanimously, and, consequently it would fall and you would not be able to sit this afternoon.

The CHAIRMAN: That is no problem. I agree with you, Mr. Olson, on re-reading your motion, that it contains only recommendations respecting this. I agree with you.

I am just wondering if the Committee and the mover and seconder would agree to allowing the Chair to call Mr. Sinclair, I could get busy immediately if they are prepared to appear within 48 hours, or perhaps some of the gentlemen here could check that for us?

Mr. OLSON: The motion calls for the desirability of preparing an interim report respecting the two matters. It does not say what it will be, and it also provides that a drafting committee shall be set up, without saying what they are going to say.

It does not in any way, Mr. Chairman, conflict with another hearing by the CPR. Perhaps they can come later this week, and perhaps not, but it seems to me that all we would do by passing the motion is to indicate the desirability of an interim report respecting the two specific matters for passenger train requirements.

The CHAIRMAN: I am going to put the motion, Mr. Olson; I agree with you. I would ask that perhaps the amendment that Mr. Deachman made could be withdrawn if he so wishes. I think there is nothing that would conflict with our calling CPR, but I would leave it to the members.

Mr. DEACHMAN: Mr. Chairman, if you are satisfied about the interest of the CPR in requesting to be recalled, which was what I felt was fair, I am quite prepared to withdraw the motion.

The CHAIRMAN: What I gather Mr. Olson is saying is that he is not opposed to the CPR being recalled before an interim report is considered by this Committee. It is just that somebody should start working on a draft—

Mr. ROCK: You do not need anything at all in that case. In this case, the steering committee can do what they want. We do not know what they are doing half the time anyway! They will be behind doors drafting this recommendation anyway. Why not have the motion and call the CPR down?

The CHAIRMAN: It is moved by Mr. Olson and seconded by Mr. Cantelon, that the Committee prepare an interim report to the House, containing recommendation respecting the CPR passenger service requirements for the tourist season in 1966, and for the additional accommodations required in 1967, to meet anticipated demand for Expo '67 and Canada's Centennial activities; and—with the consent of Mr. Olson and Mr. Cantelon—that such an interim report be drafted forthwith.

An hon. MEMBER: Are we setting up a subcommittee?

The CHAIRMAN: There is a subcommittee now.

Mr. OLSON: The steering committee is also a drafting committee, Mr. Chairman.

Mr. DEACHMAN: I do not see anything about the recall of the CPR; I do not see provision in there at all for the recall of the CPR. The effect of this motion will be to make it very definite that we are not going to recall the CPR.

The CHAIRMAN: Well, the amendment I have, moved by Mr. Deachman and seconded by Mr. Reid, is that an interim report be presented after CPR officials are heard, and being subject to being recalled.

Mr. DEACHMAN: No; that is not the way it was worded. What I said was—simply that we proceed to hear the CPR forthwith before writing the interim report.

Mr. OLSON: All I can say, Mr. Chairman, is that the motion certainly does not preclude this Committee from recalling the CPR.

Mr. DEACHMAN: All I said was to “hear the CPR forthwith before writing the interim report.” “Forthwith” means before we take any other steps. I am suggesting that a step must intervene, namely, the calling of the CPR before we prepare the report.

Mr. BYRNE: Mr. Chairman, Mr. Olson can have his opinion but at the same time I think we should be entitled to ours.

Mr. Olson is suggesting that, having heard evidence on the one hand, and having heard counter-evidence on the other hand, which the party of the first part feels quite strongly that they are able to refute—Mr. Olson is asking you to draw up a report based on evidence that is not essentially correct. Had we not better hear the rebuttal so that this report can be drafted in terms that will resolve this. The way to do that is to put the amendment and the motion—

Mr. BELL (*Saint John-Albert*): Mr. Chairman, one more compromise effort: Would Mr. Olson object to putting in there the general phrase “having due consideration for the CPR interests” and this would then place the onus on the steering committee, after their phone call to the CPR officials, to decide whether we have to hear them or not.

Mr. OLSON: I have no objection to that being included in the motion if it is necessary, Mr. Chairman, but I have to go back to the same position. The motion does not preclude recalling the CPR, it does not preclude the Chairman from calling the president of the CPR even today, and it also does not state what is going to be in the recommendation, all of which can be taken into account by the drafting committee.

Mr. BELL (*Saint John-Albert*): I appreciate that, and I agree with you, but this is only to satisfy the people who want something a little more definite in the way of a reference to the CPR.

The CHAIRMAN: Order, please. Speak to the Chair, please.

Mr. SHERMAN: Mr. Chairman, if this Committee has the assurance of the Chair that the Chair is going to notify the CPR president of this draft this afternoon, why does it need to be incorporated in a motion?

The CHAIRMAN: As I said, Mr. Sinclair called the Chairman and he indicated that he definitely wished to appear before this Committee before any interim report was made.

I would ask everyone, movers and seconders of motions and amendments, if they would allow the Chair to call Mr. Sinclair, indicate to him the feeling of the Committee, the urgency which I agree with—of making an interim report because the summer season is here, and the Chair will undertake immediately to notify all members; and if the CPR officials indicate again they wish to appear then we can call a meeting Thursday or Friday—immediately. I would not think that would preclude us from moving on an interim report thereafter.

Mr. ROCK: Mr. Chairman, I think we have a motion and an amendment. I think we should move to vote on the amendment and we will settle the whole question.

The CHAIRMAN: I have asked all members, Mr. Rock, to consider what I have suggested to them.

Mr. ROCK: I already understood that the interim report was not considered—

The CHAIRMAN: I am going to ask the movers of the motion and of the amendment to consider whether or not they are prepared to go along with that.

Mr. ROCK: You are asking them to withdraw their motions.

The CHAIRMAN: Order, please. Mr. Olson and Mr. Cantelon would you agree with what I suggest.

Mr. OLSON: Certainly, Mr. Chairman. There is nothing binding in the motion as to what the report is going to be. Could we not have an expression of the desirability of filing an interim report.

The CHAIRMAN: The amendment is moved by—

Mr. DEACHMAN: I would be quite prepared to withdraw my amendment if Mr. Olson will withdraw the motion.

We have had a long discussion on this. We all understand it, and I think we are all in agreement with what we want the Chair to do. We are wrangling about how to proceed with instructing the Chair through motions and amendments. If he will withdraw his motion I will withdraw the amendment, and we will leave it to the Chair to settle the matter. I am quite sure that the Chair and the Committee understand what we want to do.

Mr. BELL (*Saint John-Albert*): Is it not possible to do what I suggested a moment ago—to rephrase Mr. Olson's motion to include what Mr. Deachman said, and move it? I hope it would be carried. Everybody would be happy.

I will ask Mr. Deachman point blank, through the Chair; Would Mr. Deachman agree to the incorporation of his amendment in the original motion?

Mr. DEACHMAN: Oh, certainly; I do not object providing if you want to take what is now an amendment, put it in the main motion, and call that the motion. This is a roundabout way—

The CHAIRMAN: May I suggest a motion that will incorporate both: That the CPR be heard forthwith before the Committee prepares an interim report to the House containing recommendations respecting the CPR passenger service requirements for the tourist season in 1966 and for the additional accommodations required in 1967 to meet anticipated demand from Expo '67 and Canada's Centennial activities?

Mr. BYRNE: Mr. Chairman, I cannot agree that this Committee should vote for that motion. That motion is an instruction to this Committee to bring in a

report anticipating the demand. It indicates that we have determined that there is a demand and that it is essential that this service be reinstituted. So far as I am concerned I could not vote for the motion in its present form.

Mr. OLSON: Mr. Byrne, it is for you to put the amendment to the motion—

The CHAIRMAN: It is moved by Mr. Deachman and seconded by Mr. Reid that the Canadian Pacific Railway be heard forthwith before the Committee prepares an interim report.

All those in favour of the amendment?

An hon. MEMBER: May I have a clarification on the motion? If we vote for the amendment and then we vote—

The CHAIRMAN:—On the motion as amended.

Those against?

The amendment is carried.

The motion as amended will be as follows: The Canadian Pacific Railway be heard forthwith before the Committee prepares an interim report to the House containing recommendations respecting the CPR passenger service requirements for the tourist season in 1966 and for the additional accommodations required in 1967 to meet anticipated demand from Expo '67 and Canada's Centennial activities.

All those in favour?

There will be no debate, Mr. Cantelon.

Opposed?

Motion agreed to.

We are not forcing anything. We have had a complete debate for over an hour on this matter. There was no resolving it by any compromise whatsoever. The only recourse is to put the amendment and the motion, which is proper.

The motion is carried.

APPENDIX A-2

MAY 18, 1966.

THE TOWN OF KENORA ONTARIO

Mr. Maxime Guitard, Clerk,
Standing Committee on
Transport and Communications,
House of Commons,
Ottawa, Ontario.

Dear Sir:

While appearing before the committee in Winnipeg, one of the members asked me what the Canadian Pacific Railway Company paid in taxes to the town of Kenora. I did not have this information at that time.

However I have checked with the assessor, and CPR taxes for 1966 amount to \$37,474.85 for land and buildings. I would request that this information be conveyed to the members of your committee.

Yours very truly,

J. A. Sherrett,
Industrial Commissioner.

APPENDIX A-3

To: House of Commons Standing Committee on Transport and Communications, Calgary Hearing May 9, 1966.

From: The City of Red Deer.

The city of Red Deer expresses thanks to the House of Commons Standing Committee on Transport and Communications for the opportunity to make representation to it concerning passenger services of the Canadian Pacific Railway.

This morning is the earliest the writer has been able to peruse written reports of the proceedings of this committee, but he has read with interest some excerpts of them, particularly with reference to the much used phrase "effective demand".

The situation at Red Deer is as follows:

1. The present dayliner service does not do a good job of catering to the needs of the 100,000 plus people living in the Red Deer area. The schedules are such as to make it awkward for people wishing to spend the day in Calgary or Edmonton, and extremely awkward for returning Red Deer area citizens who are unfortunate enough to arrive in Calgary or Edmonton by air after 5.30 p.m.

Can true effective demand be known when schedules do not cater to the needs of potential customers?

2. It costs about half as much again per mile to travel by Canadian Pacific dayliner as to travel by bus.

Can true effective demand be known when prices are artificially high by 50 per cent?

Red Deer citizens wonder if indifferent scheduling and artificially high fare prices are a prelude to another application to curtail or abandon dayliner service between Calgary and Edmonton because of alleged unprofitable operation. The tactics described are bound to make it impossible to measure effective demand and, as well, to yield a handsome deficit.

Broadly speaking, does the CPR plan to deliberately make its train service so unpopular as to result in a completely exasperated public demanding nationalization of CPR passenger services?

Does the CPR seriously believe it can persuade the Canadian public to accept its traditional responsibilities to provide a reasonable level of passenger train service, without the Canadian public demanding an accounting for the hundreds of millions of dollars in benefits it has received and continues to receive in payment for its services?

Has the CPR not prejudiced its passenger service to be unprofitable without any serious attempt to overcome its inflexibility in meeting changing customer demands and preferences?

In Red Deer it is felt that more attention by CPR management to scheduling, pricing of services (train fares), and merchandizing would greatly increase the profitability of the Edmonton-Calgary dayliner run. Certainly the city of Red Deer would oppose any curtailment or abandonment of this service.

In addition to the above brief, I supported in general, on behalf of the city, the brief presented by the city of Calgary, excepting the portion dealing with taxation of downtown CPR properties.

Respectfully submitted,

Alderman R. G. McCullough.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament
1966

STANDING COMMITTEE

ON

TRANSPORT AND COMMUNICATIONS

Chairman: Mr. JOSEPH MACALUSO

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 18

TUESDAY, JUNE 7, 1966

Respecting

The subject-matter of the adequacy of the present program and future plans for passenger service on the lines of the Canadian Pacific Railway.

WITNESSES:

From the Canadian Pacific Railway: Messrs. I. D. Sinclair, President,
S. M. Gossage, Vice-President.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE
ON
TRANSPORT AND COMMUNICATIONS

Chairman: Mr. Joseph Macaluso

Vice-Chairman: Mr. H.-Pit Lessard
and

Mr. Allmand,
Mr. Andras,
Mr. Ballard,
Mr. Bell (*Saint John-
Albert*),
Mr. Byrne,
Mr. Cantelon,
Mr. Carter,
Mr. Deachman,

Mr. Fawcett,
Mr. Horner (*Acadia*),
Mr. Howe (*Wellington-
Huron*),
Mr. Hymmen,
Mr. McWilliam,
Mr. MacEwan,
Mr. Olson,
Mr. Pascoe,

Mr. Reid,
Mrs. Rideout,
Mr. Rock,
Mr. Saltsman,
Mr. Sherman,
Mr. Southam,
Mr. Yanakis—(25).

(Quorum 13)

Maxime Guitard,
Clerk of the Committee.

ORDER OF REFERENCE

FRIDAY, June 3, 1966.

Ordered,—That the Standing Committee on Transport and Communications be authorized to sit while the House is sitting on Tuesday, June 7, 1966.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House.

REPORT TO THE HOUSE

FRIDAY, June 3, 1966.

The Standing Committee on Transport and Communications has the honour to present its

FIFTH REPORT

Your Committee recommends that it be authorized to sit while the House is sitting on Tuesday, June 7, 1966.

Respectfully submitted,

JOSEPH MACALUSO,
Chairman.

(Concurred in on June 3, 1966)

MINUTES OF PROCEEDINGS

TUESDAY, June 7, 1966.
(32)

The Standing Committee on Transport and Communications met at 9.40 o'clock a.m. this day. The Chairman, Mr. Macaluso, presided.

Members present: Messrs. Allmand, Andras, Bell (*Saint John-Albert*), Byrne, Carter, Deachman, Fawcett, Horner (*Acadia*), Howe (*Wellington-Huron*), Lessard, Macaluso, MacEwan, Olson, Pascoe, Rock, Saltsman, Sherman, Southam (18).

Members also present: Messrs. Davis, Orlikow.

In attendance: From C.P.R.: Messrs. I. D. Sinclair, President; S. M. Gossage, Vice-President.

The Chairman opened the meeting. The Committee resumed its consideration of the subject-matter of the adequacy of the present program and future plans for passenger service on the lines of the Canadian Pacific Railway.

Mr. Sinclair was invited to read his brief.

At 11.00 o'clock a.m. the Committee recessed until 11.15 a.m.

On reassembling, the witness continued reading his written representations.

Then, on motion of Mr. Andras, seconded by Mr. Southam,

Resolved unanimously,—That the brief presented by C.P.R.'s officials and signed by Messrs. Sinclair and Gossage, be printed as an appendix to this day's Minutes of Proceedings and Evidence. (*See appendix A-4*).

Mr. Sinclair concluded the reading of his brief.

At 1.00 o'clock p.m. the Committee adjourned until 3.15 o'clock this afternoon.

AFTERNOON SITTING

(33)

The Standing Committee on Transport and Communications reconvened at 3.25 o'clock p.m. this day. The Chairman, Mr. Macaluso, presided.

Members present: Mrs. Rideout and Messrs. Allmand, Andras, Bell (*Saint John-Albert*), Byrne, Cantelon, Carter, Deachman, Fawcett, Horner (*Acadia*), Howe (*Wellington-Huron*), Hymmen, Macaluso, MacEwan, McWilliam, Olson, Pascoe, Rock, Saltsman, Sherman, Southam, Yanakis (22).

Members also present: Messrs. Crouse, Herridge.

In attendance: From the CPR: Messrs. I. D. Sinclair, President; S. M. Gossage, Vice-President.

The Chairman opened the meeting. Before the Committee began its examination of the witnesses, on motion of Mr. Rock, seconded by Mr. Bell (*Saint John-Albert*) it was,

Resolved unanimously,—That the letter addressed to Mr. Rock, M.P. by Mr. Desmond P. White, be printed as an appendix to this day's Minutes of Proceedings and Evidence. (*See appendix A-5*).

On motion of Mr. Rock, seconded by Mr. Sherman,

Resolved unanimously,—That the Committee seek permission to sit while the House is sitting on Tuesday, June 14 and Thursday, June 16, 1966.

The examination of the witnesses being completed, the Chairman thanked Messrs. Sinclair and Gossage who retired, subject to be recalled.

At 5.55 o'clock p.m. the Committee adjourned until 8.00 o'clock this evening.

EVENING SITTING (34)

The Standing Committee on Transport and Communications reassembled at 8.10 o'clock this evening. The Chairman, Mr. Macaluso presided.

Members present: Mrs. Rideout and Messrs. Allmand, Andras, Bell (*Saint John-Albert*), Byrne, Cantelon, Carter, Deachman, Fawcett, Howe (*Wellington-Huron*), Hymmen, Macaluso, McWilliam, Olson, Pascoe, Rock, Saltsman, Sherman, Southam (19).

Member also present: Mr. Smith.

In attendance: The Honourable J. W. Pickersgill, Minister of Transport.

The Chairman opened the meeting and invited the Honourable J. W. Pickersgill, Minister of Transport to make a short statement before being questioned thereon.

Then on motion of Mr. Sherman, seconded by Mr. Allmand,

Resolved unanimously,—That the Committee seek permission to sit while the House is sitting on Thursday, June 9, 1966. ,

On motion of Mr. Fawcett, seconded by Mr. Bell (*Saint John-Albert*),

Resolved unanimously,—That the documents sent to the Chairman of the Committee by Mr. Burwash, Director of Economics and Accounting Branch of the Board of Transport Commissioners be printed as an appendix to this day's Minutes of Proceedings and Evidence. (*See appendix A-6*).

At 9.55 o'clock p.m. the Committee adjourned until 4.00 p.m. on Thursday, June 9, 1966 provided leave is granted to the Committee to sit while the House is sitting.

M. Guitard,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY June 7, 1966.

● (9.40 a.m.)

The CHAIRMAN: Gentlemen, we now have a quorum.

I would like to bring to the attention of members of the Committee that, pursuant to the decision of this Committee last week, we have with us again the officials of the Canadian Pacific Railway, in the person of Mr. I. D. Sinclair, president—and I would like to take this opportunity, formally, on behalf of the Chairman and members of the Committee, to congratulate Mr. Sinclair on his election as president of the CPR—and with him is Mr. S. M. Gossage, vice president in charge of day to day operations of the CPR and senior railway officers, along with our two companions. I am sure all members know our travelling friends.

Before we commence, gentlemen, we do want to express to Mr. Sinclair and the officers of the CPR that although we gave them very short notice about their recall, and have put them to a great deal of time and effort, we are happy that they are able to attend with us today.

We will commence the brief with Mr. Sinclair.

Mr. I. D. SINCLAIR (*President, Canadian Pacific Railway*): Thank you, Mr. Chairman, and thank you for your best wishes on my election; I appreciate that very much.

As I expressed to your Chairman, we regret that we were unable to contribute our presentation in advance. We just got it finished and we were therefore unable to give you an opportunity of reading it before we appeared.

I also wish to apologize to the Committee that we have been unable to complete our French text. The French text, however, will be available next week.

Before I turn to the presentation, I would like it to be noted that in reading the transcript—in Volume II, at page 84—I said “There is no rail passenger equipment . . .”—that is, “No conventional rail passenger equipment being made in North America and there has not been any for quite a number of years”. When Mr. Walters, the legislative representative of the C. of L.E., was here he said that he was surprised to hear us say that, because the Kansas City Southern, according to information he had, had built ten new passenger coaches.

In the light of the information that I had—and since I had possibly misinterpreted it—we went back to the American Railway Car Builders Institute and they have confirmed that since 1958 there has been no new conventional railway sleeping or dining cars or passenger cars built on the North American continent. However, from 1958 to the present there was a total of 69 passenger

coaches—that is, coaches, not sleepers or diners—and that is less than one half of one per cent of the equipment roster of the United States railroads alone. I want to draw that to the attention of the Committee as what I said may have resulted in misleading some of you; and I would like to have that on the record, Mr. Chairman.

In reading some more of the transcript I noticed that I said “let us assume there was a \$60 million deficit” and I noticed that some of the members might have picked this up as a figure that I was applying to Canadian National Railways. I made it clear at the time that I did not know what their deficit was. I do not know. I have looked at the statistics and they do not publish it in their report.

What I do know is that the figure that they proved and advanced before the MacPherson Royal Commission, covering 1958, was some \$50,358,000; and using that as a base—and if they calculated it on the same basis that they then did it, I would anticipate that they surely must have reduced it somewhat from the \$50 million; because they had taken off quite a number of passenger trains. Also, they have the advantage of all the business now between Montreal and Toronto, and between Ottawa and Toronto. I would expect, therefore, that their load factor, which was extremely low, would be somewhat higher. I think the point, really, is this, that irrespective of whether it is \$50 million, or \$40 million, or \$35 million, it is a very, very large sum of money, and I find it difficult to find any justification for why a man from one of the outports in Newfoundland should subsidize a mechanic from Hamilton, or why a farmer from Nipawin, Saskatchewan, should subsidize his more fortunate friends who live and farm on the Portage plains. Whatever the figure is, it is extremely high.

Mr. Chairman, I turn to the submission. We have put an index at the front of this submission. You will see that under the main headings we are dealing with costing, contractual obligations, non-rail income, other investments, the “Canadian”, the “Dominion” and the use of transportation resources. We have subheadings which, I hope, will enable you to move back and forth with some alacrity.

Time again has precluded us from summarizing this, and I would think the most expeditious way of handling it, which might prevent us in the question period from merely referring to stuff that has already been dealt with in the written brief, would be if I just read it through as quickly as I could, Mr. Chairman.

The CHAIRMAN: The Committee would appreciate that, Mr. Sinclair. I know you like to stand, but if you would like to sit please feel free to do so.

Mr. SINCLAIR: Thank you, Mr. Chairman.

Mr. HORNER (*Acadia*): Mr. Chairman, before Mr. Sinclair proceeds I think we should be made aware of the fact that this brief deals with roads and investments—two very contentious points—and if Mr. Sinclair is going to deal with them, to deal with them in this brief, then I have the full right to rebut or question him on those points. Am I clear on this, Mr. Chairman?

Mr. ROCK: Mr. Chairman, I would like to remind the members of Committee here that if Mr. Horner had been with us out west he would have heard

that there were many questions asked in that regard, especially on investments, and because of that I believe Mr. Sinclair has the full right to make comments in that regard.

Mr. HORNER (*Acadia*): I am not saying Mr. Sinclair has not the full right—and I am sorry I was not able to attend the Committee out west—but nevertheless I live out west and have some knowledge of the transportation facilities there. I want to have it made clear that if Mr. Sinclair deals with these points we should be allowed to.

The CHAIRMAN: As far as "other investments" is concerned, as Mr. Rock stated, this was dealt with in our hearing and there is nothing wrong with its being dealt with by the CPR in their presentation. We have taken evidence on "other investments", small amount non-rail investments of the CPR.

As far as the costing is concerned, we are not going into the costing of grain. This is strictly a matter of the—

Mr. Rock: Mr. Chairman—

The CHAIRMAN: Mr. Rock, if you will allow me to finish. We have precluded in all our hearings any discussion of grain, grain movement, and I have been very strict on that as members of the Committee know.

Mr. Horner, if you will allow me to, I can read and I discussed the matter beforehand with Mr. Sinclair.

The only matter that is concerning me here—and I have not had a chance to read the three pages—

Mr. SINCLAIR: May I explain them?

The CHAIRMAN: Yes, Mr. Sinclair.

Mr. SINCLAIR: Before the Committee, on a number of occasions, the question came up about the Canadian Pacific costing techniques, and reference was made by more than one witness to the fact, as was said, that the MacPherson Royal Commission had reduced the variable costs of grain from \$17 million to \$2 million, and this was the fault of regression analysis and this was what showed how poor the costing procedure of Canadian Pacific was.

This arises from a complete misunderstanding of what the Royal Commission did, and all I have done here drawn to the attention of the Committee what the Royal Commission actually did. It did not prove in any way the allegation that was made, that what the Royal Commission did with the grain figures arose from mistakes in regression analysis.

I am not dealing with the costing of grain other than to answer the allegation that was made to this Committee and accepted by this Committee on what the Royal Commission had done.

The CHAIRMAN: I would agree. On reading this over, Mr. Horner, I think that that is quite sound.

Mr. HORNER (*Acadia*): Since Mr. Sinclair is going to do an hour's reading I think the Committee should be given—

The CHAIRMAN: We will be here all day long, and I think it was the decision of this Committee to recall the CPR; in fact, if I recall, it was one of

your own recommendations that the CPR be called back. I am sure, if you will look at the transcript, that you agreed with the recommendation of the Committee, Mr. Horner.

I think we will proceed.

Mr. CARTER: On a matter of procedure; to save time, if Mr. Sinclair is going to read through all this heavy brief, it is going to take at least an hour, or an hour and half. I was wondering if we could save time if we read it ourselves and underline the points we want to question on.

The CHAIRMAN: Mr. Carter, I do not think it would be fair to the CPR. We had a great deal of thick brief read to us on our western trip and I do not think it would be fair not to have the CPR present their brief today. We have allowed others to do so and I think it would be just discriminating not to allow them to.

Would you proceed now, Mr. Sinclair?

Mr. SINCLAIR: Thank you, Mr. Chairman.

In reading the transcript up to the Medicine Hat hearing—and that is as far as I have been able to go at this time—it appears clear that there has been considerable misunderstanding of the costing techniques used by the Canadian Pacific. This appears to have arisen out of a misconception of railway costing and of the techniques used for that purpose. It seemed to us a review of some points should clarify the matter and be of assistance.

Now first, dealing with the adjustment of the variable cost of handling grain by the MacPherson Royal Commission, references were made to the fact that the MacPherson Royal Commission reduced the short-fall of revenue on variable costs for export grain from \$17 million to \$2 million, and statements were made that this reduction was attributable to the costing methods used by the Canadian Pacific.

It should be known that the reduction in the variable cost of export grain made by the MacPherson Royal Commission was not due to the costing methods used by Canadian Pacific. The major reduction was due to the adoption of a different concept by the Commission regarding solely related branch lines and to the use of a different rate for cost of money.

Both Canadian Pacific and Canadian National had included in the variable cost of moving export grain the cost of solely related branch lines. The MacPherson Royal Commission disassociated these branch line costs from grain entirely and therefore reduced the cost of moving grain by the amounts applicable to the solely related branch lines, and dealt with branch lines in another way. At page 63, Volume I of its report the MacPherson Royal Commission refers to this matter as follows:

I then quote from there, and I read towards the end of that quotation:

—we consider the existence of light density lines of importance in the group of problems facing Canadian shippers and railways. Recommendations to meet this problem have been made.

And here is the important part:

In our present considerations we have therefore removed this expense from the costs applicable to the carriage of export grain.

Then they went on and dealt with branch lines and they made a recommendation which I quote on the top of page 2, in which they set up a branch line fund of some \$13 million.

Further on that page I deal with the "cost of money".

Both railways used in the cost of grain traffic an item termed "cost of money" which was developed on the basis of the cost of debt and equity capital and our calculation was supported by evidence.

The Royal Commission held, however, that the Board of Transport Commissioners had fixed a permissive level of earnings for traffic on the railways generally, and a higher cost than that should not be placed on grain. In other words, if you wanted to raise the permissible level of earnings you would have to do it by a separate proceeding before the Board somewhat similar to what the Bell did and the B.C. Telephone did just recently. Therefore, they reduced the cost of money which we had in at 6.5 to 3.74.

Mr. ORLIKOW: Mr. Chairman, may I suggest that we invite Mr. Sinclair to sit down?

The CHAIRMAN: Mr. Sinclair is one of those who is so used to the adversary system that he likes to stand.

Mr. SINCLAIR: In addition to that there are some minor adjustments besides those two major ones that I have dealt with, and I point out what they were; that was in the count of box car days, average weight of train and multiple car cuts in switching.

Railway costing was a matter of major interest to the MacPherson Royal Commission and, just as an aside, you may recall on that Commission there was Mr. Platt from Lethbridge, a leader in the farm movement, and a man who has had formal training in statistics and was completely familiar with statistical techniques and had some knowledge of regression analysis. He was representing the farm segment of the community on that Commission, if anybody was representing any particular segment.

At page 54, Volume I of its report the Royal Commission stated:

The railways presented studies intended to show the costs associated with the movement of grain and grain products from Western Canada to export positions. The techniques developed are, in our opinion, significant contributions to the science and art of solving the very complex and vexatious problem of transportation costing. The techniques used to achieve the results are not unique to railway costing, although the results are of necessity couched in terms of the railway accounts. We are aware that the studies are not solely applicable to the movement of grain, but have utility also in costing other movements.

At pages 18 and 19, Volume II, it also said:

The development of costing techniques is particularly vital for railways, and we have been impressed by the degree of sophistication already displayed. The submissions made to this Commission on the costs associated with the movement of grain and grain products from western Canada to export positions is evidence that the science and art of cost finding have made significant strides.

Dealing with multiple regression analysis I refer to what we said when we were here before in Volume 4, and I pointed out at that time that no expert had disagreed with the idea that multiple regression analysis was appropriate for joint cost problems.

I then refer to some questions put by Mr. Fawcett to the economic representative of the Farmers' Union, and I then go on to say:

It is clear that there is a lot of misunderstanding regarding the use of the multiple regression analysis technique in railway costing and, more particularly, in the costing of passenger train service. The general misconception is that, as suggested by Mr. Fawcett and others, the multiple regression analysis is a cost accounting system while in effect it is a tool which enables cost analysts to separate joint costs which before the development of this technique had to be apportioned on some arbitrary formula. In discussions of the multiple regression analysis, there seemed to be an inference that this technique was used to develop practically all railway costs. While the multiple regression analysis is an excellent technique, it is only used when it is required and needless to say that it is not being used when the direct method can be applied to arrive at cost. To make it clear, it is not a cost accounting system; it does not go back to primary accounts as a principle; it is used only where direct applicability and simple and usual techniques will not be applicable. It is to overcome the arbitrariness that was used in previous application for distribution of joint costs.

Turning to variable costs, it shows that the multiple regression analysis is used on only a small proportion—

For example, an analysis of the variable cost of passenger train service for the year 1965 as reported on page 52, Volume I of transcript indicates that 63.5 per cent of these costs were developed by the direct method as they are directly assigned to passenger train service. These include, among others, wages of train and engine crews, train fuel, passenger car repairs and depreciation, the cost of operating sleeping cars and dining and buffet service, etc. The multiple regression analysis was used to develop only 13.2 per cent of the variable cost of passenger train service. An analysis of the variable costs of "The Dominion" for the year 1964 shows that approximately the same percentage of the total cost was developed by each costing method.

It is generally agreed by cost experts that the multiple regression analysis is an eminently suitable technique to develop the cost for various types of transportation service where the cost is incurred jointly and accordingly cannot be assessed to any single type of transportation service. In this regard the MacPherson Royal Commission at page 55, Volume I of its report, said.

"For that considerable body of expenses in the Accounts which are known to be variable with work performed to a greater or lesser degree, but are not directly assignable, the availability of computers and the regression techniques give a sound statistical basis for apportionment amongst various segments of traffic."

It is undoubtedly because of a lack of familiarity with railway costing that suggestions are made that the multiple regression analysis does not produce reasonably accurate variable costs and, more particularly, that the variable

costs of system passenger train service or of "The Dominion" are incorrect because of the use of the multiple regression analysis technique. Mr. Chairman and members of the Committee, my next point is a review of the cost of the passenger train service by the MacPherson Royal Commission.

At Winnipeg—and I have only a note of this because I have not got the transcript, and when the transcript is out if I am wrong in my notes we will have to correct it—

Mr. O'Keefe asked Mr. Mauro if he felt that the Committee could accept the passenger train service cost figures since the MacPherson Royal Commission had already made a review of the cost of passenger train service. Mr. Mauro answered that the Commission had performed no costing on passenger services and that it had only received figures.

Mr. Mauro may have left the impression that the MacPherson Royal Commission did not review the studies of the cost of passenger train service submitted by the two railways; both C.P. and C.N. The MacPherson Royal Commission had in fact reviewed the cost of passenger train service developed by the railways and at pages 58 and 59, Volume I of its report, made adjustments to the cost developed by each railway, and also brought the cost of the two railways to a comparable basis. This was necessary in light of their recommendation of subsidy payments related to passenger train service, and their adjustments reflect the conclusions they were reaching.

When Mr. Maurice Wright was here for the Railway Labour Group, he introduced an old friend of everybody who knows anything about railway costing, namely Professor Berge. What amazed me was that he was going to try to use Professor Berge to indicate a different concept from what we had—because in principle we do not disagree with Professor Berge—and as a matter of fact our techniques are acknowledged to be considerable advances, and along the lines where he would like to see the I.C.C. go.

Professor Berge is not contrary to our view, as I will show you.

The article that was brought here by Mr. Wright—and obviously he had just picked it up in Chicago, and I am afraid he did not understand it—is one of numerous articles written by Professor Berge in the last twenty years, in which he criticizes the rules of the Interstate Commerce Commission for the separation of expenses between freight and passenger service.

I want to make clear to the Committee, Mr. Chairman, that the whole theory of the I.C.C. is to arrive at fully apportioned costs. That should be added in there. It is important for you to recognize this, because one of the main points that Professor Berge is complaining about is that they are, in effect, applying arbitrariness to costs that we call constant.

Under the Interstate Commerce Commission rules, the railways first assign to passenger service the expenses that are directly or naturally assignable to that service and apportion all—and that is the important word—all the other expenses of the railway on the basis of statistical factors, or on the basis of the division of expenses which have already been directly assigned; that is, applying an absolute ratio; taking the ratio that they had from directly assignable expense and applying that ratio to all other expenses which they could not directly assign, or in which they did not have other factors to deal with.

Mr. Wright's inference in introducing Professor Berge's article was that the methods used by Canadian Pacific in developing the variable cost of passenger train service are the same as those prescribed in the Interstate Commerce Commission rules, and therefore, the criticism directed against the Interstate Commerce Commission methods by Professor Berge equally applies to the costs submitted by Canadian Pacific.

That is wrong. Mr. Wright is obviously misinformed or misunderstands, because Canadian Pacific does not use the methods prescribed by the Interstate Commerce Commission and criticized by Professor Berge or do we use similar methods in costing, whether it is passenger or freight.

The theory of Professor Berge is that the principal business of railways is the carriage of freight traffic and that passenger traffic is a by-product service. At the conceptual level, the position of Canadian Pacific does not differ from that of Professor Berge. It has been our position for many years that the formula prescribed by the Interstate Commerce Commission was entirely inappropriate for the separation of railway expenses between freight and passenger service and, consequently, produced unrealistic results of passenger service. Therefore, there was statistical phantasia, as Berge said—and Mr. Wright thought that he had found some new magic phrase. That is an old one.

However, when you turn to the implementation of his concept Professor Berge is entirely inadequate. In his articles, he advocated the costing of passenger train service on an avoidable cost basis and measured avoidable cost as the cost reported by railroads in the United States as limited to solely or directly related to passenger train service. His computations ignore the fact that the separation between common and solely related expenses in the United States proceeds under vague instructions of the Interstate Commerce Commission so that the reported solely related expenses are only an arbitrary figure.

● (10.10 a.m.)

If you look further at his articles—and you will note these in his articles all the time—you will find that he is hoist on this petard and he becomes inconsistent in his own approach. For example, at page 18 of the article which Mr. Maurice Wright filed with you, which is an appendix in Volume 6 at page 421, Professor Berge says:

All common or joint costs should be charged against the primary product, which in the case of the U.S. Class I Railroads is undeniably freight service.

Then further, at page 423 of your transcript, he says:

Separate common expenses, on the basis of special studies, which are deemed to be avoidable if passenger and allied services were to be discontinued.

Canadian Pacific's approach to the costing of passenger train service is to identify the elements of cost which are the direct result of the operation of passenger train service. Some of these elements are readily available from the accounts, which are kept in conformity with the uniform classification of accounts prescribed by the Board of Transport Commissioners, and I give some examples: To develop certain elements of cost—further on I say—special studies are made. An example is yard switching where time studies are made to

develop the cost for individual passenger trains and for total passenger train service. Where the expenses are common to both freight service and passenger service, Canadian Pacific uses the multiple regression analysis which in the opinion of railroad cost analysts here and in the United States is the most advanced and effective technique available to determine variable costs per unit of output.

To sum up, at the conceptual level, Canadian Pacific and Professor Berge are not far apart. Canadian Pacific's position is that passenger traffic is a by-product of the railway plant and should bear no portion of constant cost. Variable cost is the relevant basis for costing passenger train service. Canadian Pacific has gone a long way in the maintenance of detailed records and in the development of techniques for a determination of the variable cost of passenger train service consistent with its concept. In contrast, Professor Berge is still making vague suggestions of changes in the separation rules. He has not yet come up with specific methods which would permit the implementation of his costing concept with regard to passenger train service.

If I may, I think I will now enter into a rather important part of our submission, Mr. Chairman, because many people who have appeared before your Committee have been critical of the cost of the "Dominion" submitted by Canadian Pacific to the Board of Transport Commissioners, and have alleged that these costs were overstated. Many of these allegations were of a very general nature and none of these was substantiated by facts.

I will make reference specifically as I go on to where specific adjustments were suggested to this Committee. First I would like to bring you back to what was done.

In the proceedings before the Board of Transport Commissioners, Canadian Pacific filed Exhibit 4 which shows the revenues and variable costs of "The Dominion" for the year 1964 as follows:

Revenues	\$11,154,234
Variable Cost	20,828,166
	<hr/>
Excess of Variable Cost over Revenue	\$ 9,673,932
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Canadian Pacific also filed Exhibit 5 which shows a projection of revenues and variable cost of "The Dominion" as operated after September 7, 1965 for a full year. The revenues and variable costs of this projection for the full year were as follows:

Revenues	\$ 2,852,100
Variable Cost	7,732,100
	<hr/>
Excess of Variable Cost over Revenue	\$ 4,880,000
	<hr/>

When we turn to the brief for the province of Manitoba, which you received in Winnipeg, and look at page 17—once again I cannot refer you to the transcript and I am going to read from the brief:

The foregoing examples—

And these are the ones I have just set out again.

—indicate the unacceptability of the cost evidence submitted. In addition the Board itself, with admitted limitation for critical cost analysis, reduced the C.P.R.'s alleged costs from \$20 million to \$6 million and the deficit from \$9.6 million to \$3 million.

Manitoba said again:

The Board should have rejected completely evidence which indicated cost exaggeration of 300 per cent and ordered a proper and full costing of the "Dominion" services. Surely, the public interest required a satisfaction of such an important factor before discontinuance was allowed.

The statement in the Province of Manitoba Brief regarding the reduction of the cost from \$20 million to \$6 million is a typical illustration of a complete misunderstanding of cost figures. The amount of \$20 million referred to was the variable cost of "The Dominion" for the year 1964 as reported in Exhibit 4 and included the cost of operating trains 4 and 5 between Winnipeg and Vancouver during the summer period and the cost of moving head-end traffic on "The Dominion" for the full year. On the other hand, it is clear from the judgment of the Board of Transport Commissioners in "The Dominion" case and I am referring to the judgment of January 7, 1966, that the amount of \$6 million represented the estimate made by the Board staff of the saveable expense as a result of the discontinuance of "The Dominion", with its reduced consist, as it was operated after September 7, 1965.

The judgment of the Board in this regard, at page 84, reads as follows:

The Board's staff have made a general study and examination of the operation of the present train and the expenses—and mark that—claimed by the Company. They have done so in order to determine the amount of the saveable expenses, on a "bare bones" basis and excluding completely cost of money, were the train discontinued. I am in agreement with their estimate that the saveable expenses on that basis would be in the neighbourhood of \$6 million and the deficit about \$3 million.

You will see that even without taking anything for cost of money they reduced our 7.7 and 4.8 to a "bare bones" basis of 6 and 3, and this has nothing to do with the relationship between 3 and 20, or 3 and 10 as suggested by Manitoba; and any knowledgeable person who understands costing should not have fallen into that error.

At page 14 the brief of the province of Manitoba reads as follows:

The C.P.R. included as a variable cost an amount totalling \$2.7 million for cost of money. This was based on a factor of 11.4 per cent on the net investment. The Board has on previous occasions established a cost of money factor in determining its requirements formula in setting freight rates. In the case of the C.P.R. this item was fixed at 3.75 per cent, and we note at page 84 of the judgment the alleged savings under this category are disallowed.

You will recall that just above in this submission I pointed out that they were reducing to a "bare bones" cost and excluding all cost of money. They

were not saying they were disallowing it; they were excluding it to arrive at "bare bones" cost, to show that even on that basis the figures were such-and-such.

The difference between the 11.4 and the 3.74—or what Mr. Mauro calls 3.75—is that one is a gross figure and the other is a net figure. The difference arises from the application of income tax to that proportion which is on an equity basis, on which it is quite usual for us to operate; and he has compared the net with the gross and therefore attempted to say that we had overstated on that basis. Again it is somewhat surprising.

Road maintenance: I turn now to Mr. Wright's brief at page 339 of Volume 6 of the transcript where he refers to road maintenance for the "Dominion" in 1964, amounting to \$1.9 million; then he said that the estimated cost of road maintenance by reason of the movement of grain sold to Russia in 1965 was \$500,000. He incorrectly stated that, and that is quite apparent from the records.

The variable cost of road maintenance of \$1.9 million was for the operation of the "Dominion" during the year 1964, which included for the full year head-end traffic, and once again trains 4 and 5 between Winnipeg and Vancouver.

Mr. Wright's testimony was on the basis that the \$1.9 million was for the "Dominion" with this reduced consist. This is clearly not so.

Furthermore, the estimated cost of road maintenance resulting from the movement of Russian grain was given by Mr. Nepveu in evidence in the "Dominion" case as \$1.5 million, not as \$500,000 as stated by Mr. Wright. That is found at page 5685 of the transcript in the "Dominion" case.

The gross ton miles of the "Dominion" for 1964—that is the pool train, the head-end consist, full consist head-end traffic, plus trains 4 and 5 between Winnipeg and the coast, which was a connection at Winnipeg with traffic through Minneapolis and St. Paul—the gross ton miles was 2.3 billion, whereas the gross ton miles attributable to the movement of grain sold to Russia were estimated to be slightly in excess of 4 billion.

It is not surprising that the variable cost of road maintenance for the operation of the "Dominion" in 1964 was in excess of the estimated variable cost of road maintenance for the movement of the Russian grain, because it is a well-known fact—generally recognized by railroad engineers, and certainly recognized by practical railway people—that the operation of passenger trains causes relatively larger track maintenance expenses than freight trains. If you want some independent evidence, I am sure Mr. Fawcett, who has ridden a lot of freight trains and a lot of passenger trains, will tell you that to maintain tracks for passenger trains by way of line and surface and super-elevation of curves is much more expensive than it is for freight trains.

We have conducted certain studies which indicate that a passenger gross ton mile, in the matter of the cost of track maintenance, is equivalent to about two freight gross ton miles; that is, the ratio of two to one. This greater impact of passenger trains on track expense is due to the greater speed at which they are operated, higher standards of track structure, line and surface, super-elevation on curves, and specifically matters of that kind.

Other cost analysts in the United States have suggested that the cost of maintenance for a passenger gross ton mile was equivalent to the cost for six freight gross ton miles, and they attack the basis that we put forward; they say it is too conservative; that we are not putting enough cost against passengers. In certain cases I have heard some of my friends from the provinces reach for this when they had another axe to grind.

Some others in the United States go on, to argue that any additional cost of freight train damage to a passenger train track should be charged to passenger train service. For example, on the low rail on super-elevated tracks, where a freight train does not go round at the speed a passenger train does, and where the wear on the low rail, therefore, by a freight train is substantially higher than it otherwise would be if you did not have as much elevation, they say that the difference, in cost which is referable to a freight train grinding round the curve, should not be charged to freight trains, but should be charged to passenger trains, because if you had a track for freight trains you would not have that much elevation. There is some logic in that situation. However, it would increase the cost of passenger train road maintenance expense and we have not done it.

Another item that has seemed to have caused quite a bit of misconception and misunderstanding, from my reading of the transcript, certainly up to and including the Medicine Hat hearing is what I call transfer cost. For instance, Mr. Wright said: If you are going to take the diesels off the "Dominion" and put them on the Russian grain contract how can you talk about depreciation for those very same locomotives by reason of the fact that they have taken them off the "Dominion"?

Then, of all things—I could, perhaps, have understood that from Mr. Wright, because he is a relatively new boy—but when I read the brief of the province of Manitoba, it said: "Unless the board's staff had access to information that was not tendered in evidence, the statements on this category of costs indicate that either—"—and I am applying the emphasis—"—the CPR would be laying off in excess of 100 men, which information is important if the Board was to properly assess the impact on the public generally, or that they cannot have savings of \$10 million in the category of labour alone". We will check that from the brief. It seems to me that there is a verb wrong in here but we will check it.

It is right, so we will leave it like that.

Some people seem to have difficulty with regard to the transfer of cost from one service to another. With regard to the depreciation on diesel locomotives, there can be no argument that depreciation is a valid cost. So long as the diesels were used on the "Dominion", depreciation on these units was a cost of operating that train. With the discontinuance of the "Dominion" the units were transferred and used in freight service and depreciation on these units became a cost of moving freight traffic. Surely it cannot be suggested that depreciation on units used in freight service continues to be a cost of operating the "Dominion". This can perhaps be better understood by looking at it another way as follows: If the operation of the "Dominion" had to be continued and diesel units from the "Dominion" had not been available to handle the additional freight which had to be moved, it would have been necessary to secure additional diesel units.

The cost of depreciation to the company would then have been the total of the cost for the units on the "Dominion" and the cost for the additional units in freight service. It is as simple as that.

I want to turn to the Manitoba situation, in which he dealt with the labour savings. The fallacy in the reasoning in the province of Manitoba brief, that either the Canadian Pacific Railway Company will be laying off in excess of 100 men or that they cannot have savings of \$10 million in the category of labour alone, should have been obvious to Mr. Mauro. First, the \$10 million, assuming that this figure is accepted for this purpose—I do not know where he got it, and I have not checked it, but I am sure I can reconcile it and I am accepting it for this purpose—would represent the labour included in the variable cost of operating the "Dominion" in the year 1964, again including trains 4 and 5 during the summer period and again including the head-end traffic for the full year. The figure of 100 men which was subsequently produced in evidence before the Board of Transport Commissioners, was the estimate of lay-offs expected as a result of the discontinuance of the "Dominion" as it was operated from September 7, 1965, that is, with its very reduced consist, no head-end traffic and without trains 4 and 5 between Winnipeg and Vancouver. The "Dominion" as operated during the year 1964 had already been reduced through the discontinuance of trains 4 and 5 by the transfer of head-end traffic from the "Dominion" to fast freight trains at the end of June 1965 and by the elimination of sleeping and dining cars on September 7, 1965. The transfer of head-end traffic had already resulted in a transfer of personnel to freight and the reduction in the consist had resulted in few lay-offs as the great majority of sleeping car and dining car employees during the summer period were students engaged on a temporary basis only.

Furthermore, the discontinuance of the "Dominion" took place during a period when there was a substantial increase in freight traffic. As a result, as soon as the locomotives were released from the "Dominion" more freight trains were operated, thus employing more crews on freights; new positions became available in other areas on the servicing of these additional freight trains, and the company was therefore able to offer alternative employment to most of the employees whose work in passenger service was not longer required.

The point, therefore, is that taking figures out of context and trying to equate them leads, I would suggest, to a misconception and a misunderstanding which I hope we have been able to deal with.

There are other points in the transcript that I think will be coming forward later, from Moose Jaw and Winnipeg, and from the head of the lakes, but we can only deal with what we have. I have the brief of Mr. Mauro in its written form, and I have used that for points of reference.

I now turn to a major heading which we have designated as "contractual obligations". At page 56 of Volume I of the transcript we made our position at that time in these words:

What has not been generally understood and what must be emphasized in the strongest possible terms is that the passenger train service program followed by the Company has been in the best interests of

the people of Canada and in faithful accord with the Company's obligation under its contract of 1880, which required the company to:

"—thereafter and forever efficiently maintain, work and run the Canadian Pacific Railway".

At page 348, Volume 6 of the Transcript, the Canadian Railway Labour Executive Association makes reference to Canadian Pacific's contractual obligations as follows; I am quoting Mr. Wright:

I say that the Canadian Pacific, in effect, gave a promissory note to Canada and, with the greatest respect, I put it to you that Parliament must determine what the value of that note is.

The Contract of 1880 states by Clause 9 the purpose of the grants of money and land—

There is no mystery about this; it is all written large and anyone who reads can follow it. I am going to quote from Clause 9:

—for which subsidies the construction of the Canadian Pacific Railway shall be completed and the same shall be equipped, maintained and operated,—the said subsidies respectively to be paid and granted—

Watch the words—"paid and granted".

—as the work of construction shall proceed, in manner and upon the conditions following...

This is a word of conveyance, gentlemen. The conditions then applied were that the payments of money and grants of land were to be made at so much per mile of completed line in portions not less than 20 miles in length.

The contract clearly shows that the grants were in aid of construction; as each 20-mile section was completed land was granted and it was made available for settlement which would generate traffic and money was available to assist construction of the next 20 miles. There is confirmation of this purpose in the provision that for the eastern section from Callander, Ontario, to Selkirk, Manitoba, where costs of construction were higher and opportunities of settlement were lower, the money grant per mile was to be higher and the land grant lower than in the central section, where for most of the distance the reverse conditions existed.

It is obvious from the quantum and application of the grants that the parties intended them as a means of getting the railway established as a going concern. The money was spent in construction, and most of the land was sold to settlers for nominal amounts to open up the west.

At Page 323, Volume 6 of transcript again quoting Mr. Wright:

One can understand CPR's pre-occupation with the necessity of showing a profit, but one is entitled to ask whether this predilection with profit has not come to represent CPR's total concept of its responsibilities under the 1880 contract.

He has asked the question, and I am glad to have this opportunity to answer it.

Canadian Pacific is fully cognizant of its responsibility under the 1880 contract. The obligation remaining upon the Company after the line was built

and equipped was simply stated, and that is, that it must operate it in perpetuity in accordance with its Act of Incorporation and the Railway Act.

In the interpretation of contracts the guiding principle is the normal meaning of the language used by the parties in the document. You have lawyers on your Committee and I am sure they will not disagree with that. An interpretation that would lead to an unreasonable result is not to be inferred unless the intention is clearly stated. That is another basic principle.

The contract of 1880 was to remain in effect forever, and the parties who signed this contract of October 21, 1880, were well aware from past experience even at that early time that revolutionary changes could occur over future years in transportation as well as all other phases of activity. In railways these signers, both for the government and syndicates that represented the Company, they had already seen a development from horse-drawn rail cars, to wood-burning steam locomotives and then to larger coal burning locomotives, each development bringing a tremendous increase in efficiency. It could not fail to be obvious to them that in a contract effective for all time the prudent course was to leave open and flexible the services that the company was to perform provided it operated always up to the current standards of an efficient railway.

● (10.35 a.m.)

In other words, Canada was being assured by this contract of a transportation service by rail that would be adaptable to change as the needs of the country altered. I think that is important. That is what they were trying to do. That is what they got.

In other words, Canada was being assured of a transportation service by rail that would be adaptable to change as the needs of the country altered. The obligation upon the company to change with the times, to adopt new methods and to eliminate what had ceased to be efficient is basic. The continuous process of modernizing includes not only the employment of new methods, services and equipment, but also the pruning off of what has become inefficient and wasteful, so that at all times Canada will receive the service that it needs with the greatest expedition at the lowest possible cost. The continued operation of trains that have so far outlived their need that patronage can only be induced by fares at less than cost is the very opposite of the requirements of the contract. It is a waste of manpower and motive power that could otherwise be employed productively to the advantage of the country.

Mr. Chairman and gentlemen, where the passenger service has become superfluous and wasteful, in the interests of maximum productivity, as well as in compliance with the contract made by this Company with the people of Canada, it must and should be eliminated.

I now refer to page 515, Volume 8 of the transcript, the brief of the National Farmers' Union, and I am quoting:

It is clear, then, that the construction of a transcontinental railway system, along with the tariff policy of 1879, was designed to develop a national industrial economy. In terms of this policy, the CPR was regarded as a means to an end, not an end in itself. Indeed, the CPR owes its very existence, among other things, to the deliberate and total

disregard of the market mechanism; a mechanism, we hasten to add, which would have directed the flow of traffic north and south rather than east and west.

Yet the officers of the CPR would have us believe that the Company is like any other corporate business institution in our economy and should therefore be judged on criteria appropriate to business institutions in a changing capitalist society.

He goes on and he quotes part of the preamble of the Act of 1881, being Chapter I of the Statutes of Canada, Victoria '44. He quotes, and I will read what he quotes:

Whereas by the terms and conditions of the admission of British Columbia into Union with the dominion of Canada, the government of the dominion has assumed the obligation of causing a railway to be constructed, connecting the seaboard of British Columbia with the railway system of Canada.

Then he says "And, of course, the preamble goes on". Well, I should say it goes on! Let us see how it does go on. It goes on just a little bit further down, and it says this—and it makes it clear, and it is a significant thing: "Parliament's decision was to turn away from public ownership concept and to insist upon establishment on a firm footing of a private enterprise attractive to investors". The paragraph of the preamble I draw your attention to is this:

And whereas the Parliament of Canada has repeatedly declared a preference for the construction and operation of such railway by means of an incorporated company aided by grants of money and land, rather than by the government—

Thus the national policy—and our position is clear—as regards the railway was to create a business enterprise upon a firm foundation. The agreement and the Act of 1881 were both political and economic. They had a political purpose, based upon sound economics—the creation of a firmly established private enterprise that would unite and develop the country without a continual drain on the public treasury, which is the history of public ownership of railways both in Canada and elsewhere.

I noticed, just last week, that the dollar equivalent loss of the British railways is now in the staggering sum of in excess of \$300 million per annum, and going up. We all know of the sums lost by the German state railways, the French state railways, and you can go on and on.

The whole tenor of the agreement is in accord with the purpose of a private enterprise that was not going to be a continuous drain upon the treasury of this country. Plainly the company was intended to supply a transportation service fitting the needs of the nation at all times without economic waste and at the lowest possible cost.

I turn to another quotation of the National Farmers' Union:

The CPR, by refusing to provide—

Watch the language.

—by refusing to provide adequate and efficient passenger train service, has violated the terms of the 1880 contract with the dominion govern-

ment. The violation of the contract is, we submit, a serious offence. The injury to the public is compounded in view of the tremendous investment the public has made in the construction and development of the CPR system.

The Parliament of Canada, gentlemen, under Section 315 of the Railway Act, has empowered the Board to determine what is adequate and suitable accommodation in respect of railway service, and neither the National Farmers' Union nor anyone else can point to a single instance in the long history of this Company in which we, Canadian Pacific, have refused or failed to provide what the Board judged to be adequate service; and it is clear from that provision in the Act, that the Board has to determine what is adequate service in the light of all proper interests, and they make clear, when they do make their judgment, that all interests are heard and all evidence is weighed.

Again the Farmers' Union brief refers to a provision in Section 11 of the contract with the government of Canada, referring to the land grants, and it made a point out of this:

—should any of such sections consist in a material degree of land not fairly fit for settlement, the Company shall not be obliged to receive them as part of such grant.

For the life of me I cannot understand why they think that that was unusual, if you remember the purpose of it. They had a definite and they had a useful purpose by making the land grants to the Company, namely, the opening up and settling of the west. As stated in the preamble ratifying the contract—and I am quoting here—it is necessary for the development of the Northwest Territories.

By conveying these lands to the Company the government made the Company automatically a partner and an ally in the endeavour of opening up the west for settlement. The government intended them to bring in farmers, to dispose of the land, and the Company did so at a rapid rate. Obviously it had to have lands that in a material degree were fairly fit for settlement, or they could not have brought in the farmers that were necessary, in the view and in the language of the government of the day, to open up the Northwest Territories.

Again, you have to remember that in 1880 the easiest consideration for the government was a grant of land, again a conveyance of land, and it is an unlimited conveyance, gentlemen. The land had no value to the government as it stood and supplies of it were virtually limitless.

On either side of the railway the Company received the odd-numbered sections, the homesteaders the even-numbered ones. Some of the present holders of the homestead land are probably among the members of the National Farmers' Union who are now claiming that a land grant carries with it a perpetual obligation to the government, going beyond the terms of the grant. Think of it. Here is a farmer's union which says: "Some of our members have a grant. Notwithstanding that that grant is absolute. You have a continuing and unwritten obligation to the government that they can take you up on any time they like". I am sure that they would raise their hands in holy horror if anybody even suggested it, and I would not blame them.

We did not get the lands free. Canadian Pacific paid for them by the assumption of tremendous risks and obligations which it undertook for the assistance of the government and the building of Canada.

It is strange now to hear some of those whose land was also by Government grants, contending that Canadian Pacific because of its land grants must take the risks and must maintain indefinitely, for their possible occasional convenience, the trains and services whose need and patronage have long since disappeared.

In discussing the obligations of Canadian Pacific Railway under the contract of 1880, the brief of the Province of Manitoba states as follows:

At Page 19, paragraph 43:

The Canadian Pacific Railway Company was thus to be the chosen instrument of national policy, fulfilling the purposes and obligations of the Dominion.

This is Mr. Duff Roblin who is speaking:

"The line, privately owned and operated, was to be a national line built as part of a national policy to fulfill national purposes".

At Page 21, paragraph 47:

"the corporation's policy in discontinuing passenger services indicates that the company has assumed that all corporate obligations under the contract of 1880 have been fulfilled—

This is Mr. Mauro.

At page 25, paragraph 50, quoting an extract from a submission of the province of Manitoba to the MacPherson Royal Commission, it states:

The province of Manitoba also submits that the Parliament of Canada when it established the Canadian Pacific Railway Company envisioned a corporated entity and not a corporation with a dual purpose and with the segregation of assets between the rail enterprise and the various subsidiary enterprises—

I am paraphrasing.

parliament had no intention that the company might exercise its additional powers as ends in themselves or for purposes divorced from the objective for which the company was originally formed—

And then again:

Pursuant to this rationale we are witnessing what is in effect an internal "spin-off" of corporate assets from rail to non-rail enterprise—

Canadian Pacific agrees that its line was built as part of a national policy to fulfil national purposes and, accordingly, that it has a responsibility to provide a transportation service in Canada to meet the effective demand of the public. We stated that at page 60 of Volume I of the transcript and I do not want to read it again.

I now go on to say that neither Canadian Pacific, nor do I think anyone else—because we have read this very carefully many times—can find, anywhere in the text or the meaning of the 1880 contract, or in the national policy that it implements, any requirement to perpetuate railway services that have lost their usefulness; that is, in the economic sense. Such a requirement would be the very opposite of what Parliament intended when it declared a preference for the construction and operation of the railway by means of an incorporated company, rather than by government.

Canadian Pacific acknowledges without hesitation that it has an obligation to provide railway services that are required as the effective demand may exist and change from time to time, but it most strongly believes that no resources in Canada, whether they are of Canadian Pacific or of the taxpayers, should be expended upon operations which changing conditions have made redundant. Such expenditures waste the nation's wealth and its manpower.

The crux of that issue is whether the company is, by contract, required to waste scarce resources. This is what they are really arguing for, that a contract is going to require Canadian Pacific to waste scarce resources. To suggest that the signers of that contract in 1880 had such an intention is, on the face of it, I submit, absurd.

The brief of Manitoba and some other briefs presented to the Committee had endeavoured to paint a picture of Canadian Pacific as a ruthless corporation ignoring the obligations of its contract and arbitrarily cutting off service to the public at its own discretion. The true facts are far removed from this; the contract has always been most carefully observed, and the Railway Act leaves no discretion with the railway to act in an arbitrary manner even if it desired to do so. Parliament has cautiously preserved the rights of the public, and in our submission the policy and actions of Canadian Pacific have been entirely in accord with the purpose of Parliament and with the best interests of Canada.

I now turn to non-rail income. I refer first to the province of British Columbia submission when Mr. Brazier was making this submission, and he said:

We agree that other rail services, such as freight services ought not to bear the cost of maintaining a passenger service which is required in the public interest. We remain unconvinced that the cost of such service should not be borne by the non-rail income. It is the view of the government of British Columbia that if the service is required in the public interest, it ought to be paid out of the non-rail income.

Others who have appeared before your Committee in western Canada and elsewhere have suggested that the passenger train service deficit be paid out of the non-rail income. I ask you to note from the transcript, however, that counsel for British Columbia, as others have done, later in his presentation, and realizing what he was doing, and thinking about it like this, found the undesirable economic consequences, and he backed away from that suggestion. He did not know just how much he wanted out of other income, but he did not want it as much as he thought he did.

Mr. Chairman and gentlemen, I have had the privilege of appearing at the hearings of various tribunals since 1946 and I have read, I think, most of the

cases of the Board of Transport Commissioners since it was formed, and if I have ever seen an old cat drawn on, time after time, it is this question of non-rail income—other income—and every time there is a new Board of Transport, or every time there is a new Royal Commission, or every time there is a new body, they drag out this old cat. Without exception they have been told, "Leave it alone; let us go back to Sir Henry Drayton in 1916." Away back then they were arguing the same thing: "Some shippers have claimed that the Canadian Pacific is still making a proper and sufficient return and that no increase in rates can be justified. As it occurs to me"—he is the chief Commissioner—"the mere fact that the Canadian Pacific, as a result, in part, as it may be, of its steamship operations, pays a good return to the shareholders, raises no argument one way or the other as to the reasonableness of freight rates in any given territory in which that company operates." That is significant in this year when our steamship operations are unfortunately going to show a substantial deficit. When he was writing, they were very, very profitable. If you were going to take the profitable one, Mr. Cross, then you were going to take the loss.

He says: "If the income from profitable outside investments"—this is Chief Commissioner Cross, and I have jumped up to 1948 from 1916—"is to be used to reduce what would otherwise be just and reasonable rates, then it may well be argued that if net losses were to be made in any such undertaking the users of the railway transportation services might be called upon to pay higher rates to recoup such losses. This would be a highly undesirable situation.

It seems to me that neither the profits nor the losses on other outside investments should be taken into account in fixing just and reasonable transportation rates."—and he is talking of both freight and passenger there, gentlemen.

The 21 per cent case, as it is known, with which Mr. Cross is dealing, had an application for an increase in freight rates and an increase in passenger rates both at the same time. Note that well, please. His comments go to both. That is a ruling on passenger rates by Mr. Cross, a distinguished lawyer and member of the Bar in Saskatchewan, and one of the Chief Commissioners of the Board of Transport Commissioners for many many years.

We come now to the propriety of segregating rail and non-railway assets, and we turn to the Turgeon Royal Commission of December, 1948. They were specifically directed by the order in council establishment to go into the question of segregation between rail and non-rail and to provide, if they thought so and to rule on, whether there should be a new classification of concept made mandatory of separation between rail and non-rail.

There is a lot of discussion in that report about the matter but they come to the conclusion that there should be a separation, that they should not be joined together, that one should not be used to look after the other, and they make a finding which I quote.

Then I come now to the MacPherson Commission. I am now down to 1960. I started in 1916, and I am now down to 1960. I am quoting here from Volume II, page 72, of the MacPherson Commission, this again under chairmanship of a distinguished western Canadian, a lawyer who had argued the opposite, if I may say so, in another case when he had a brief to put forward—and there is nothing wrong with that; he is now acting in a judicial capacity, or a quasi judicial

capacity at least, in determining what are the facts, what is the proper judgment. Mr. MacPherson and his colleagues said:

Regardless of the profitability of other assets, what would be the effect of using them and the income associated with them in determining the level of rail freight rates? In practice, how much difference would it make?

Dealing with the first question, that of principle, we are guided by those objectives of efficient resource allocation which we have set out for the National Transportation Policy. This means that all modes of transport shall be given a fair chance to find their proper place within an increasingly competitive system. The use of other assets in establishing rail rates would distort the competitive environment and for this reason alone would cause us to recommend that other assets not be considered.

Then they go on down and they deal with this at page 74 of Volume II of the Commission. Perhaps that should be noted so that nobody will be misled. That is the Commission, at page 74, Volume II. They said:

It is that the non-rail assets are, at least in part, the results of national grants made to the railway companies over the years to encourage the building of the railways. If this is so, it is claimed that it is only right that the profits should be used to assist in the transport of goods in the nation—or at least in that part of the nation where the grants were made.

You have heard those arguments they were made also before the Royal Commission *in extenso*. We can find no evidence that either the donor or receiver contemplated such action. Grants were made to get the railways built.

There is a finding.

Then again, at page 75, in its conclusions the MacPherson Royal Commission made this finding.

Then again, at page 75, in its conclusions the MacPherson Royal Commission made this finding:

Therefore, on principle, and on all the implications of the principle, and for reasons associated with the objectives of National Transportation Policy, we do not recommend that assets and earnings of railway companies in businesses and investments other than railways be taken into account in setting freight rates.

The level of freight rates, of course, is not a subject matter in the proceedings before your Committee at this time. It was proposed, however, that the passenger train service deficits be paid out of non-rail income so that these deficits may not be borne by the freight traffic.

It is obvious that the results of this proposal would be the same as the results of the proposals made before the Board—and it did rule against them in passenger and freight—and to the various commissions—it carries on, in the MacPherson Commission and others, from 1916 to 1960—that the non-rail income be taken into account in determining the level of freight rates. It should not be

done, say these findings. The conclusions reached by these Commissions, regarding the impropriety of taking into account non-rail assets and earnings, apply equally to passenger and freight.

The CHAIRMAN: Excuse me, Mr. Sinclair; it is a few minutes before eleven. I think we should adjourn for ten minutes to give Mr. Sinclair and the Committee a break.

We will resume at 11.10.

The CHAIRMAN: Gentlemen, it is my intention to adjourn for lunch at one o'clock and to return immediately after the question period in the House. If you feel that we can re-assemble here at three o'clock instead I would accept that.

We will adjourn at one but we will re-assemble immediately after the question period. Perhaps it might be better to re-assemble at three o'clock, because there will be questioning of Mr. Sinclair and the other witnesses.

I should also bring to the attention of the Committee that the Minister intends to be present this afternoon, too, to be heard after the questioning of the CPR officials.

Mr. OLSON: I think we may have some difficulty getting enough members to start at three o'clock, because orders of the day certainly will not be over.

The CHAIRMAN: Let us say 3.30, immediately after orders of the day, then.

Mr. Sinclair?

Mr. SINCLAIR: The next major heading is what we term "other investments". I refer to the appearance before the Committee during its Winnipeg session on May 13. Here again, gentlemen, I have not got the transcript and I am relying on a note that was given to me. If it is inaccurate when the transcript comes out I would be glad to change it, but the note shows that Mr. Mauro said that the Crowsnest Agreement gave Canadian Pacific \$11 million in grants and Consolidated Mining and Smelting Company. That statement has also been made by others.

● (11.20 a.m.)

Mr. Mauro did not give the source of the figure of \$11 million, but that figure is wrong. Canadian Pacific received cash subsidies from the government of Canada amounting to \$3,404,720 under the Crowsnest Pass Agreement, and it received, from the province of British Columbia, land grants the net proceeds of which on sale were \$1,834,498. Large segments of land were re-conveyed to the government for a nominal amount.

The cash of \$3.4 million odd, the net proceeds of sale from the land grant of \$1.8 million odd, was the total consideration—a government consideration, or any other consideration—received by Canadian Pacific for the construction of the Crowsnest Pass branch.

During your committee's hearings confusion also seems to have arisen in the minds of a number, possibly many, concerning the grants made to Canadian Pacific under its contract with the government of Canada—that is, the one of 1880, October 21—for the building of the main line and the grant for the building of the Crowsnest branch under the Crowsnest Pass Agreement. There is no connection whatsoever between the land grants received by Canadian Pacific in

exchange for its obligation to build the main line and the Crowsnest agreement. The lands received under the contract for the building of the main line were in southern British Columbia.

Mr. Mauro's statement that the Crowsnest agreement gave Canadian Pacific Consolidated Mining and Smelting Company is wrong. The interest of Canadian Pacific in Consolidated Mining and Smelting was in no way connected with grants for the construction of the Crowsnest line. Canadian Pacific's interest in Consolidated Mining and Smelting had its beginning as a speculative investment acquired originally by purchase and added to by purchase of stock from time to time including purchases of stock in 1966.

Officers of Canadian Pacific, acting on its behalf, by agreement dated February 11, 1898, purchased from F. August Heinze of Butte, Montana, the properties of British Columbia Smelting and Refining Company at Trail Creek for \$200,000. This has been up so many times, Mr. Chairman, I would like to put this on the record. Canadian Pacific then appointed a manager who carried on the business under the name Canadian Smelting Works on behalf of the company. The only additional capital put in by Canadian Pacific up to 1905 was \$5,000. Canadian Pacific received no income from this investment up to 1905. In 1905 the manager of Canadian Smelting Works which was Canadian Pacific's subsidiary, acting in connection with a syndicate, completed negotiations for the acquisition on behalf of Canadian Pacific of 46.8 per cent of the shares of St. Eugene Consolidated Mining Company, Limited, 42.7 per cent of the shares of Centre Star Mining Co. Ltd., 25.1 per cent of the shares of War Eagle Development and Mining Company, Limited, and all the shares of Rossland Power Company. The price for these acquisitions was \$825,000.

For the purpose of amalgamating these undertakings, a company called Canadian Consolidated Mines, Limited, was incorporated by federal charter, January 9, 1906. On February 14, 1906, the name was changed to The Consolidated Mining and Smelting Company of Canada, Limited (hereafter called Cominco Limited). Shortly after 1906 Canadian Smelting Works was sold to Cominco for 7,500 shares of its capital stock. For the holdings acquired in other companies in 1905 previously referred to, Canadian Pacific received 18,014 shares of Cominco. This resulted in Canadian Pacific holding initially 25,514 shares or 54.3 per cent of the Capital Stock of Cominco. Its present holding is in excess of 51 per cent; between 51 and 52 per cent.

Until 1916 the acquisition costing \$825,000 was financed by a bank loan secured by part of this stock, and dividends received on Cominco stock were largely applied toward interest and principal of the bank loan. Certain shares were sold from time to time and the proceeds applied toward the bank loan. Likewise, additional shares were purchased and the bank loan increased by the cost thereof. The bank loan was finally closed out in 1916 by cash paid by Canadian Pacific. Thereafter Canadian Pacific bought and sold Cominco stock from time to time, as any other investor does. In 1916 Canadian Pacific exchanged its holdings of common stock of West Kootenay Power and Light Company, Limited, which had been purchased in 1912, for shares of Cominco. In 1919 Canadian Pacific subscribed to \$2,698,400 of convertible bonds which were converted to common stock in 1925 in accordance with the contract. Canadian Pacific subscribed to additional stock offered to shareholders in 1930, and received further shares as stock dividends in 1931 and 1933.

Against the fortunate outcome of the investment in Cominco, Canadian Pacific made other speculative investments which were not so successful. The Hotspur Mine was one of the worst ones that we had. We lost every bit of capital we put into it, which was some millions of dollars. Another example, \$492,500 was expended in 1928 to purchase 500,000 of 5½ per cent debentures of Canada Power and Paper Corporation. Within a few years this company was bankrupt and Canadian Pacific received only \$75,000 in reorganization securities which, when they were sold nineteen years later, realized \$298,700 on an initial investment of \$492,500. Some of the railway investments of Canadian Pacific have had an unfortunate end also. An example is investments in Spokane International Railway Company totalling more than \$4,500,000 made from 1916 to 1933 which were completely wiped out by bankruptcy in 1933.

I want to turn to one other matter that was raised during your proceedings in British Columbia, and this was a phrase that Mr. Brazier, I am sure rolled off his tongue with all the alacrity and force for which he is so noted for—the phrase “untold bounty”. When asked what he meant by untold bounty he said “The E. & N. was the principal one”.

The so-called E. & N. land grant this “untold bounty” that was supposed to be given to Canadian Pacific—was conveyed to the E. & N. Railway Company as an aid to construction of the line from Esquimalt to Nanaimo and Vancouver Island under the E. & N. Statute of 1884. It was not until 1905 that Canadian Pacific purchased from the Dunsmuir interests, who were then the major shareholders, stock of the E. & N. Railway.

The stock purchase involved acquisition of the railway property and land separately.

Canadian Pacific did not receive the E. & N. timber lands as a grant. It bought the lands through purchasing the stock of a company which had held the lands for many years and which was anxious to dispose of them. Any other investor could have purchased E. & N. lands, and some did before the purchase by Canadian Pacific in 1905. When the group that are now known as the E. & N. land grants owned by Canadian Pacific were purchased, it had nothing to do with grants at all. An investment was made by the company that could have been made by any other Canadian, or, indeed, any person who wanted to take the risk of that kind of an investment. So much for that heading; it could be expanded, gentlemen, but I think this gives you the facts on both Cominco and E. & N. I think we are fortunate, gentlemen, that we had these facts written in Statute. We have these facts written in the book so that we do not have to rely on the memories of people who were not there at the time, and who might be misled by the seeming situation as it exists today. The facts are there, they speak, and I have brought them to your attention.

I think I would like to say a few things about the “Canadian”, Mr. Chairman and gentlemen. You will recall what Mr. Crump said when he was here about the reduction in time, about the equipment, and Mr. Crump’s statement that to his personal knowledge it was as good as any equipment operating anywhere in the world.

I go to page 8 of the brief of the city of Medicine Hat, and it says:

The “Canadian”, as we know it, is the only transcontinental passenger train left on the CPR and, therefore, it is very important to Canada as a whole that this prime railway service be promoted and upgraded.

It should be strongly emphasized that Canadian Pacific has no intention of permitting a deterioration of "The Canadian". The policy of maintaining this train to a high standard will be continued, and care is being taken to ensure that the employees on this train serving the travelling public do so with enthusiasm and efficiency. The report I have received, gentlemen, was that the employees who were on that train—and I will have a little more to say about it—that your Committee was on did welcome the opportunity of serving you. I think they did it with efficiency, from the reports I have received, and undoubtedly did it with enthusiasm.

The on-time operation of passenger trains across Canada in the winter months is, at best, difficult and, over the years, passenger train performance has suffered on this account. The extreme severity of last winter for extended periods seriously affected the performance of the "Canadian". We, from western Canada, know how bad a winter that was. In Manitoba it was the worst for over 75 years; it was equally bad in parts of Saskatchewan and it was certainly no cinch in Alberta.

Operating conditions in the mountains are subject to disruption by snow-slides in winter, rock slides at various times of the year and washouts because of heavy rains, or sudden changes in temperature. When washouts occur they can disrupt operations for days on end. The Committee had one example of disruption caused by washouts on their western trip. I do wish, on behalf of the Company, to apologize to you gentlemen for the inconvenience that these things cause. They are certainly beyond our control; when the scenery shifts in British Columbia nobody can do anything about it; it is an act of God; and you ran into some shifting scenery.

All railway operations are subject to disruption on account of fortuitous circumstances, such as failures of equipment and, unfortunately, on rare occasions, failures of men. These also disrupt service, and again your Committee had evidence of some of these unfortunate results.

All railway and transportation agencies are subject to these unfortunate circumstances beyond their control, but they do struggle, all of them do—air lines, our competitors—everyone struggles to minimize the impact of these results.

As a matter of policy, the necessity for "The Canadian" being operated on time is continually being stressed with the responsible officers.

The Committee may be aware that the Board of Transport Commissioners requested the railways to maintain a record of available or unsold space on its transcontinental trains for each trip in both directions during the Easter period of April 1 to 15, 1966, inclusive as well as a record of requests for sleeping car space during that period, which the railway was unable to fill. The data for Canadian Pacific was duly filed and no doubt is available for examination by the Committee and at the Board. The reports of vacant sleeping car space of "The Canadian" in this last Easter period showed that a wide variety of space was available on "The Canadian" to patrons across the country during this period. The data submitted showed that there were only two instances when space was not available for the date requested, but in 46 cases the passengers did not wish to utilize the alternative space which was available. Gentlemen, what that amounts to in percentages is this: Only one-twentieth of one per cent

of the passengers who came and presented themselves and paid their money, or who were prepared to pay their money, could not move on the day they wanted to move; only one-twentieth of one per cent. About one per cent could not have every one of their desires fulfilled to their satisfaction on the type of space they wanted. That is the record, gentlemen, in the Easter period of this year.

You have to remember that the travel period of Easter is a heavy travel period; schools are out, many people make their plans to travel at Easter; it is what we call a high density passenger travel period. You have to remember that the figures that we have given you in the reports we made to the Board demonstrate that the entire passenger requirements between Montreal and Vancouver, between which the "Canadian" operates, were more than fulfilled by what was available on the "Canadian" in the Easter of 1966.

Let us look now at May, which has just passed—the month of May, 1966. Westward ex-Sudbury, only 68.8 per cent of the berths on the train were occupied and only 39.8 per cent of the coach seats. In the eastward direction ex-Vancouver during the same period—that is the month of May, 1966—only 55.7 per cent of the berths and 26.9 per cent of the coach seats were occupied.

Gentlemen, I think that demonstrates very effectively that the "Canadian" is providing available space for the travelling public who wish to make use of rail passenger services on Canadian Pacific, and we are trying to merchandise it, gentlemen; we have a campaign on—you have no doubt seen it in the newspapers—advertising the "Canadian", and we are pushing it with travel agents and with direct selling, as well as newspaper advertising.

At the direction of the Board, gentlemen, records of occupancy or unsold space in sleeping cars and coaches, as well as unfilled requests for space, are being maintained for the four months, June through September, 1966. This study that the Board has directed is now in progress.

In order to ensure that the reservation system in effect on Canadian Pacific is operated efficiently and to a standard adequate to meet the needs of the travelling public, a study team composed of research, passenger and telecommunications officers is presently making a further review of the mechanics of our reservation system. We have inaugurated this, gentlemen, in light of comments and complaints that have been made to this Committee. We have made these studies before, but we have put this other group of specialists on top of it once again. That study is now proceeding.

I wish to refer to pages 604 and 606 of Volume 9 of the transcript. This is when you were at Vancouver, and one of our retired locomotive engineers, Mr. MacKenzie, was before you, and he was expressing his views in regard to pass privileges of employees and pensioners on the "Canadian".

In reading the transcript it is apparent, from the discussions you had with Mr. MacKenzie, that it does not make it clear that employees and pensioners are entitled to make a reservation of any kind, for any space, on the "Canadian" as far in advance of travel date as they wish upon payment of half fare. As there is a possibility that Mr. MacKenzie did not clearly understand this feature—and we gathered this from reading the transcript—the Company officer has been in touch with him and explained the situation to him so that he will understand, and in his conversation with other pensioners in Vancouver they will also understand. We circulate them from time to time, but it is one of the things

that perhaps sometimes as people get a little older they do not always remember. We were happy to go to see Mr. MacKenzie and we have had a very good chat with him.

With regard to suggestions made to the Committee by various employee representatives regarding free transportation—and I can speak here personally, Mr. Chairman and gentlemen, because I have had the privilege and the honour of representing the Company before a number of conciliation boards, as counsel—it is clear that over the years railway union representatives in wage determination cases have strongly opposed the crediting of any allowance for passes. They have been adamant on this and on the other hand passes have always been stipulated and specified by the Company as a privilege. Passes have never—and the unions have made this a strong point—been considered as a part of a railway employee's remuneration. It was a privilege, and accepted as such, and handled as such in wage determination cases. Canadian Pacific knows of no organization outside of transportation that grants its employees even a 50 per cent discount. None.

I turn now to another matter—Volume 8, page 522 of the National Farmers' Union brief, and I am quoting:

It is fact that the CPR did not properly merchandise its passenger train service; it is a fact that the Company was reluctant to introduce a faresaver plan, and when it did so, provided a plan which does not compare favourably with that of the CNR; it is a fact that the Company did not give its faresaver plan, for what it is worth, a fair and adequate trial.

I do not know, gentlemen; they may say they are facts and if you say it often enough—I mean Hitler tried that technique and it did not work very well for him, but he had the idea—if you said it often enough people would accept it as fact, but whatever the facts are about what Hitler did, or what anybody else did, what the national union said were facts are not facts; and a little bit of research would have shown them that they were not facts.

What are the facts? Canadian Pacific introduced its faresaver plan on October 27, 1963, on the same date that Canadian National adopted its red, white and blue Plan for transcontinental service (previously the CNR had experimented with Red, White and Blue fares in the Maritimes commencing in May, 1962). The faresaver plan did compare very favorably with the red, white and blue plan. The two plans were not exactly the same; indeed on some days under the faresaver plan Canadian Pacific fares were slightly lower than those under Red, White and Blue on Canadian National.

Perhaps we did not merchandise it as well as some people would have liked to see us, but we did it the best we knew how; we certainly tried, and we spent a lot of money merchandising it, and we had some very arresting types of advertising. It was a major merchandising effort. Appropriate newspaper advertisements were carried across Canada. We have copies. Special pamphlets were printed; they were given wide distribution to transportation agencies. We had special displays in travel agencies' windows. We had special displays in stations and other outlets. We sent a lot of data for tour promotion. We did a direct and indirect and an impact type of merchandising.

After the first 10 months of the faresaver plan, which included periods of heavy traffic volume, i.e., Christmas, Easter and the summer months, it was found that while the plan attracted a greater number of passengers, the increase in train miles required to handle the additional traffic contributed to an increase in cost in excess of the additional revenue provided. We had a certain load factor when we started. That load factor was higher than the Canadian National. The extra passengers, therefore, more quickly required extra car miles and extra train miles. Remember that you start from a different base.

In addition, wage rates and other costs continue their upward spiral. As a result, the passenger train deficit for 1964 amounted to \$26 million compared with \$24.7 million for the year 1963. The unsatisfactory results of the first 10 months led to the decision to increase fares on September 1, 1964, above the level of fares adopted in October, 1963, but still considerably below the fares which were in effect prior to that date between many points.

With a view to attaining the most productive level of fares in various areas, further adjustments were introduced, effective August 1, 1965, and the results of these further experiments are presently being evaluated.

Gentlemen, in a number of the submissions made to you, in the transcript I have read in Calgary, for instance, and from what I have heard was said in Medicine Hat and from what I have been told was said in Moose Jaw—which I have not read—there was some reference made to what the increase is in Canadian Pacific passenger fares.

The Company has raised fares. It has had to raise fares in its effort to maintain and operate a viable passenger service, in the light of massive increases in material prices and labour costs. Undoubtedly some of these fare increases look to be substantial, but I learned a long time ago at school that before you make comparisons you should make sure that you understand the base with which the comparison is being made. Without exception in your proceedings the comparison was not made with the level of the fares which were in existence before the massive slashes were put into effect under the faresaver plans. In other words, the experimental slashes under faresaver, which ran from 35 per cent to 50 per cent, were used as the base point on which the comparisons were made, as I have read the transcript before you today.

● (11.45 a.m.)

For instance, Medicine Hat to Vancouver; in 1960 the coach fare one way was \$30.55; in 1961, \$31.05; in 1963 this was slashed to \$15.00; the present rate for the summer of 1966 is \$27.00, \$3.55 under 1960, \$4.05 under 1961. These are figures that I thought I could give you from Medicine Hat, in the light of what was said out there. I will give you these others in a second.

I can give you some more from Medicine Hat. Medicine Hat to Winnipeg: 1960, one way coach again, \$24.65; 1961 \$25.00; under the slash for faresaver \$12.55; summer, 1966 \$20.00, \$4.65 lower than 1960, \$5.00 less than 1961. Medicine Hat to Toronto: the same kind of relationship. Medicine Hat to Montreal: the same kind of relationship.

Let us go to another place: Revelstoke and Vancouver. In 1960 the one-way coach fare was \$14.45; after faresaver it was cut to \$7.70, except on Fridays

and Sundays. In 1965 it was raised to \$13.75, except on Fridays and Sundays. Here is another 1966 fare that is lower than in 1960, and yet people complain of this fare to your Committee.

Other examples could be given that do not show perhaps such a startling result. For example, in some cases—and this was before your Committee not quite this way, but I am going to give you the figures—they are now higher than they were in 1960. For example, Calgary and Edmonton: in 1960 the one-way fare was \$7.40; after faresaver it was down to \$4.50; the present fare is \$9.70.

Now, gentlemen and Mr. Chairman, the Canadian Pacific fare of \$9.70 for Calgary to Edmonton is still lower than the cost of driving a car between Calgary and Edmonton, even on those beautiful, cold, free highways that Mr. Manning has given to the people of Alberta.

That reminds me, I drive on a toll highway in eastern Canada and I pay \$1.50 for 52 miles; the toll is three cents a mile. Back out to the glorious west, where they do not have to have toll roads: The fare out there between Calgary and Edmonton is lower than the air-bus fare of Pacific Western Airlines which is \$12.00 one way and \$24.00 return—or at least it was the last time I used it. I may be wrong; maybe they have increased it. Our fare is lower than the air-bus fare, higher than the bus fare and it is higher than the circuitous Canadian National route fare. We still think it is the best transportation bargain between Calgary and Edmonton.

Fares including sleeping car accommodation have also gone up but the method of establishing these fares has changed. Included in the sleeping car fare today is the provision for meals. Sleeping car accommodation on trains prevents high density utilization of cars and therefore the impact of increased costs, such as wages, has a greater unit effect. Few people recognize that a compartment or drawing room on a train has the same relation to other accommodation as a suite in a first class hotel, and it is only realistic to price them accordingly. Suites and drawing rooms are for the fortunate few.

The lower berth fare between Calgary and Vancouver is \$34.50. Included in this is \$20.00 for transportation which leaves \$14.50 as the passenger's payment for the berth space and two meals. If an allowance is made for the value of the meals, the cost to the passenger is still less than the price on a medium priced hotel room.

With the Committee's knowledge of DBS statistics in respect of food prices, I do not think we need comment on the increases in that field.

Canadian Pacific is not wedded to any fare level and, within the regulatory authority which fixes maximum fares, it will continue to adjust fares in the light of costs and other factors.

At page 53, Volume I, of the transcript, the Company's brief reads:—

It is apparent that we will continue to operate "The Canadian" for years to come.

At page 559, Volume 9, of the transcript, in the brief submitted by Mr. C. W. Brazier on behalf of the Province of British Columbia, he states:—

We derive very little comfort from the—my bracket—(foregoing) statement.

The previous assurances given by officers of Canadian Pacific in regard to the future of "The Canadian" should be re-emphasized. In addition, I would like to draw to your attention, Mr. Chairman and members of the Committee, that all of our operating and traffic officers in Canadian Pacific have been advised that Mr. Crump has told this Committee—and we quoted him—"I expect to see the "Canadian" running for many many years".

I now turn to another operation, the "Dominion". At page 4 of the brief submitted by Alderman Mark Dantzer on behalf of the city of Winnipeg, the following statement appears. Again I do not have the transcript. If it is in error we will have to correct it later.

"The withdrawal of the train (the "Dominion") was preceded by a long downgrading procedure . . ." So says Alderman Dantzer.

Other parties in western Canada have also suggested during these proceedings that the company has downgraded the "Dominion" with a view to discouraging passengers. Mr. Chairman and gentlemen, this is absolutely wrong. Their memories are befogged by time. The facts are that the passengers deserted the "Dominion" long before its consist was reduced, or its services curtailed.

I would like to set the record straight, and to do so you have to begin back in the mid '50's. In 1955 the "Canadian", with its new stainless steel equipment, was placed in service, and, at the same time, the consist of the "Dominion" was greatly improved. In addition to the best of the standard Tuscan Reds mentioned in the Canadian Pacific brief, in 1955 the following new stainless steel equipment, identical to that on the "Canadian", was added to the "Dominion" consist: A Park Dome car at the tail end, equipped with a lounge and bar, and all the amenities those facilities can give you; Chateau cars equipped with a variety of sleeping accommodation; Manor cars equipped with a variety of sleeping accommodation; deluxe diners, exactly the same as on the "Canadian" and Skyline dome coffee cars equipped with bar and, again, lounge facilities for coach and tourist passengers; and deluxe stainless steel equipment in the coaches. This was all on the "Dominion".

These concerted efforts on new equipment went hand-in-hand with the major merchandising effort on a continuing basis on the "Dominion", and these efforts of new equipment and this merchandising, did contain the previous decline in the passengers on the "Dominion" for the next two years, 1956 and 1957, but in 1958 the resumption of the decline set in. However, even though the decline started again 1958 on the basis it was before this very expensive and modern equipment was put on, it was not until the fall of 1960, two years and nine months after the decline commenced, that the sleeping and dining car service was modified. In other words, in addition to the "Canadian" during 1958; 1959 and most of 1960, the "Dominion" was being operated for the whole year with a full complement of sleeping and dining car equipment, and excellent equipment, also.

The level of traffic being handled during the Winter of 1959-1960 was such that there was on board the train, on the average, only three to five passengers for each 'on train' employee. Patronage at that time consisted of approximately 50 per cent daycoach passengers, and, of course, daycoach service was retained after 1960. In several months during that winter 1959-1960 on some days total

sleeping car passengers on the train leaving Winnipeg for the West numbered three and four one per sleeping car.

It will be seen from the foregoing that, although full sleeping and dining car service was provided and the service was extensively merchandised, the travelling public did not need, and, therefore, did not want "The Dominion". In view of these extremely light carryings and the availability of space on "The Canadian", the Company was obliged to curtail the sleeping and dining car accommodation provided on "The Dominion" in the winter months commencing in September, 1960. I stress the following, Mr. Chairman and gentlemen: At the time this curtailment took place there was little or no objection to the service modification because, in fact, the train was not being used as a transcontinental train.

It is obvious from the foregoing that the allegation that Canadian Pacific downgraded the "Dominion", which had the effect of driving people away, cannot be supported by fact. As I said people's minds have become clouded by the effluxion of time.

For the five and one-half years since 1960, "The Dominion" was operated with a full sleeping car consist in the summer time, with overnight sleeping service between Montréal-Sudbury and Toronto-Sudbury and between Fort William and Winnipeg in the winter time. However, technological developments in the handling of head-end mail and express traffic necessitated that this traffic be removed from "The Dominion" in June, 1965. The extremely light carryings of this train, due to availability of other modes of travel coupled with the necessity for removing the head-end traffic, resulted in the decision that its continuation was unnecessary and unjustifiable.

I turn now to another matter. I refer to page 50 of our brief which makes reference to the effect on communities of discontinuance of rail passenger services. I was questioned on this when I was here before.

I refer to page 319 of Volume 6 of your proceedings, and the brief of the Canadian Railway Labour Executives Association, and I read as follows:

It is almost beyond comprehension to imagine that a decision to discontinue the "Dominion" could be made without giving any regard whatever to the social and economical impact upon the communities which are serviced by the "Dominion".

Watch the language of that, Mr. Chairman. That is notwithstanding the findings of the Board of Transport Commissioners, and notwithstanding the explanation that was given of the language in the extra note.

I would say, that after adjustment of any change in the labour force in a particular community has been completed, there does not appear to have been any adverse effect on communities of an economic or a sociological nature as a result of the discontinuance of "The Dominion". Adjustments in the labour force of the railway industry are going on continually as is the case in all industries due to the period of change in which we live. These changes in the labour force in so far as the railways are concerned can be accepted with the least hardship in times of prosperity such as now when we are experiencing growth in freight traffic, piggyback traffic, merchandise services traffic, and types of traffic such as that.

I have read most carefully all the submissions made to the Committee in so far as the transcript is available. I have checked the notes of the people who have travelled with me. I am not aware of any weight of evidence whatsoever of economic or sociological hardship that has been before you which has resulted from the discontinuance of the "Dominion"; and I say that after a very careful reading and weighing of all your transcript to date, as well as the notes that were provided to me by those who were with you. It is understandable that in a very general way communities are reluctant to lose any transportation facility which they have. It will be recalled that a few years ago it was necessary to eliminate completely the rail service in the Kootenays and it would be difficult to suggest—and I understand you had the opportunity on your way west, flying over a good part of the country, to see it from the air—it would be difficult to suggest that the growth of such cities as Penticton, Nelson and Cranbrook have been stifled by the change in the travel habits of the public; and that is what it is, gentlemen, it is a change in the travel habits of the public. It is not, as some may suggest, a failure to enable people to move.

The policy of the Board of Transport Commissioners in respect of the feature of the effect—sociological and economic—set it out very clearly at page 81 of their judgment of January 7, 1966, and I read:

In arriving at its decision the Board takes into consideration all relevant factors, including the population and economics of the area concerned, the need of the public for train service and the kind of service given, the volume of patronage by the public and the prospects for patronage in the future, alternative transportation services, revenues and expenses of the service, and the burden to the railway company of continuance of service and the effect on it of discontinuance.

This is as one would expect, because the law requires the Board to determine what is adequate service in the light of all "proper interests".

Now, the MacPherson Royal Commission: Page 46 of Volume I outlines this point, and I quote from the Royal Commission:

Our prime responsibility, as we see it, is to seek out and recommend measures to eradicate the causes of inequities in the freight rate structure and to draw attention to those restrictions which, because of law or public policy, may prevent a more efficient operation of railways ... The public, by and large, has already indicated its preference for other modes of travel, and except in a few instances where no alternate form of overland travel exists, we look forward to the time when the railways will be supplying passenger services only in those areas where they find economic justification for them.

At Page 498, Volume 8 of transcript, the National Farmers' Union Brief reads as follows:

These figures, however, refer to total passenger service. In giving evidence to this Committee, an officer of the Company attempted to estimate the revenue, variable cost, and deficit attributable to "The Dominion". On page 80 of the Minutes of Proceedings and Evidence of this Committee—Thursday, March 3, 1966—Mr. Sinclair, vice president of the CPR estimated that the revenue from "The Dominion" was from 20 per cent to 25 per cent of the total passenger revenue for 1964.

By the way, in the CPR brief, use is made of the 1965 figures. However, in attempting to estimate the deficit attributable to "The Dominion", Mr. Sinclair uses 1964 figures. He said and we quote "We have to go back to 1964, that was the full year." No further explanation was given by the Company, nor asked for by members of this Committee. Now to return to the argument.

Now, gentlemen, the results of the "Dominion" were filed with the Board of Transport Commissioners at the hearings held in the "Dominion" case. The percentages of revenue and expenses which were given to the Committee by me on March 3, 1966, and to which reference was made at page 80, Volume 22, were an answer to a specific question by Mr. Horner who asked for the percentage of Canadian Pacific passenger business which is made up by "The Dominion" service. Mr. Horner did not ask for the results of the "Dominion" as these were already available in the judgment of the Board of Transport Commissioners, January 7, 1966, a copy of which each and every member had with them at the time.

Another point: Comparison of the results of "The Dominion" for the years 1964 and 1965 shows that revenues in 1965 were \$3.7 million lower than 1964 and variable cost for 1965 was \$5.1 million lower than 1964. The loss for the "Dominion" was, therefore, \$1.4 million less in 1965 than in 1964 despite higher wage costs and material prices. The reduction in the loss was due to two major changes which were made in the operation of the "Dominion" in 1965. One was the removal of the head-end traffic and its transfer to fast freight trains effective June 24, 1965. The other change resulted from the fact that trains No. 4 and 5, which were operated during the summer season between Winnipeg and Vancouver in 1964 as an integral part of the "Dominion", were not operated in the summer of 1965.

The reduction in the loss of the "Dominion" in 1965 accounted for two-thirds of the reduction in the system passenger train deficit in the same year as compared with 1964.

Now let us turn to the brief submitted by the Province of Saskatchewan reads, at Page 2, as follows:

In Saskatchewan "The Dominion" consisted of only passenger coach travel which, nevertheless, provided an important local service to a substantial number of Saskatchewan residents. A local passenger service, therefore, should be maintained which is at least equivalent to that formerly provided by the "Dominion".

A similar proposal in respect of local service was made by other parties in western Canada.

Canadian Pacific was requested during the "Dominion" hearings before the Board of Transport Commissioners to estimate the financial results of a one-car RDC service between Brandon and Medicine Hat. After study, revenues were estimated at \$49,900 and variable cost at \$441,800, leaving an excess of variable cost over revenues of \$391,900. The revenues and variable cost submitted by the Company were critically examined by the Board who finally concluded that even if the revenues were doubled that is, to \$100,000 and the variable cost

reduced to a bare minimum of \$350,000, the proposed one car RDC service from Brandon to Medicine Hat, could be expected to lose a quarter of a million dollars annually. In assessing this proposal, the Board commented as follows:

The observations and recommendations of the MacPherson Commission in respect of uneconomic rail passenger services where there is a reasonable alternative public highway between the principal points served by the railway can be related to the Saskatchewan situation.

Having regard to the size of the cities and towns and smaller centres along Canadian Pacific's main line in Saskatchewan, the contiguity of the Trans-Canada Highway, experience in respect of passenger carryings on the "Dominion" between Brandon and Medicine Hat and the trend generally towards travel by automobile and bus in preference to short and medium distance travel by rail, I am not able to find that a railiner service through Saskatchewan, as requested by the government, would not be operated at a substantial loss or that the inconvenience to people along the line of not having local passenger train service would be such as to warrant the Board ordering Canadian Pacific to inaugurate a railiner service and bear its loss. I do not feel justified in ordering the Company to inaugurate such a new service in the circumstances.

The close proximity of the Trans-Canada Highway to the Canadian Pacific main line and the communities served by that main line is most significant.

In respect of bus service, the president of the Greyhound Lines stated in his letter which was filed with the Board as follows:

There is no question in our mind that we could readily handle this traffic flow without undue burden and we are fully prepared, willing and able to supply additional services as required to handle such traffic on any and all sections of the route in question. We have currently on order many new buses for the year 1966 and our fleet will be further augmented with new equipment in 1967 to adequately handle the increased passenger traffic that should result because of the centennial year and Expo '67.

I might further add that the existing service has never been loaded to capacity and there are presently available passenger seats on each and every schedule in the territory in question and this same condition exists at peak periods of summer tourist travel.

In paragraph 10 of the brief submitted by the province of Manitoba to this Committee, reference was made to Canadian Pacific statement Number 3 of the BTC "Dominion" Hearing-Exhibit 25, "Revenue Passengers Carried on "The Dominion" by Conductors Run". You will recall that statement was put out as an appendix to the Manitoba brief. Attention was particularly drawn by counsel for Manitoba to the 1964 passenger carryings shown therein between Brandon and Moose Jaw and between Moose Jaw and Brandon. Mr. Mauro compared these carryings to the carryings shown on the same statement between Montreal and Ottawa and Ottawa and Montreal—The figures for Montreal-Ottawa, 43,595; and Ottawa-Montreal 26,336.

In this regard, Mr. Mauro indicated that he could not understand why discontinuance of the "Dominion" had been authorized while at the same time

rail passenger train service was still provided between Montreal and Ottawa. I am instructed by people who were there that perhaps Mr. Mauro made a big point of it during the hearings with you.

What Mr. Mauro failed to do was to point out that the number of passengers shown on the statement as being carried between Montreal and Ottawa did not include passengers carried on other trains between those points. He apparently did not understand that operation of the "Dominion" between Montreal and Ottawa had been discontinued. They were taken off when they were taken off in western Canada.

The confusion may have arisen because for a few months before the "Dominion" was discontinued there had been a partial consolidation of the "Dominion" and a set of local trains between Montreal and Ottawa—that is, our trains 232 and 235. The Board merely said this: "These local trains which you had partially consolidated were not an issue in the hearings in respect of the "Dominion", and so you can take off the "Dominion"; but then you have to unscramble the consolidation and re-institute the local trains in their pools; and if you want to take them off, write to the Board for a normal hearing". That is all they said.

The carryings referred to above between Moose Jaw and Brandon—this is important and Mr. Mauro did not draw this to your attention—reflect all passengers on and through, as well as on and off, the train between the points, and include long-haul traffic as well as local traffic, tour traffic as well as local traffic, as well as other traffic during the summer peak period. In other words these figures are entirely unsuitable for assessing the need for a local service between the points. It is just useless. You have a figure for which there is no breakdown at all. It is useless. You do not know what you have there. You cannot assess local needs by looking at a figure that is on and off, as well carries all through and tours, and then say "Look at these, the local traffic purposes". They are not local traffic at all.

In view of the inability of these figures to be used for the purpose, we in Canadian Pacific set up a study team to ride the "Dominion" between Brandon and Moose Jaw and make an actual count of local passengers using the train between those points. This study was carried on over a period of 4 weeks between September 9 and October 7, 1965. Results showed that in the first week the average passengers per trip were 5.7 westward and 4.6 eastward; in the second week, 8.9 westward and 4 eastward; in the third week, 6.1 westward and 4.4 eastward; and in the fourth week, 5.7 westward and 5 eastward. Surely gentlemen, these figures point to an overwhelming preference on the part of the travelling public for use of their own private automobiles on the Trans-Canada Highway, or for bus travel and demonstrate there is no need and there is no effective demand for local rail passenger service between Brandon and Moose Jaw and across the prairies.

I turn now to our brief, and this appeared before you and I will not read it again. I refer to Brazier for British Columbia, Volume 9, and I expect we will accept this in juxtaposition. I will read Brazier. He said:

While it is true that the percentage of the travelling public carried by the railways has dwindled very significantly over the past years, there is a substantial number of Canadians who wish to—and do, whenever

possible—travel on the railways in preference to other modes of travel. This is particularly noticeable from a study of the traffic during the height of the tourist season. Tourism today is an important economic factor for Canada, and we are particularly conscious of this in British Columbia. Railway passenger services are essential in order to develop and expand tourism.

● (12.15 p.m.)

Tour parties which were formerly operated on the "Dominion" from Winnipeg-Moose Jaw to Vancouver were handled on the older conventional passenger equipment and were frequently the cause of complaints due to the age and condition of the equipment in comparison with the new stainless steel cars, some of which were also operated in the "Dominion" as well as were the consist of the "Canadian". Therefore, if this tourist traffic were to be continued, existing obsolete equipment would require extensive repairs and modernization.

At the end of 1965 a review of the passenger car equipment situation was made and it was established that of the 137 cars, and 13 standby cars, required to operate a 17-car "Dominion" in the summer months, for the purpose of handling tourist traffic, 73 of these cars would require shop repairs involving a cost of \$1.3 million; the actual figure is \$1,373,000. After one summer season, a further 53 cars would require shop repairs costing an additional \$1 million. These repair figures, of course, do not include normal running repairs and maintenance during operation.

This cost cannot be economically justified in the light of revenues provided by this tour traffic and the short two-month season. Furthermore, this older equipment worn with the extensive repairs referred to above could only remain in operation for a few years.

In order to perpetuate the tour traffic, it would, in effect be necessary to purchase new equipment which could not be justified on a full year basis of operation, and it cannot be justified for a re-instituted "Dominion" or a second section of the "Canadian" for only two months of the year. If you did do this you would be guilty in Canadian Pacific of a serious misallocation of resources.

Tourists in Western Canada during the coming Summer will be handled by a number of alternate means:

- (a) A number of tourists are being handled and a number have been booked on "the Canadian" for the coming Summer.
er.
- (b) Greyhound Bus Lines have secured additional buses and are planning to increase the frequency of service for that purpose.
- (c) Air Canada this summer has announced a 28 per cent increase in transcontinental service with 20 per cent more economy accommodation, and in future years increases have been indicated for both Air Canada and Canadian Pacific Airlines.
- (d) Canadian National has announced 20 per cent more sleeping accommodation this summer on its Supercontinental and Panorama trains.
- (e) A continuation of the trend on the part of the American tourist to use his automobile for his vacation. I thought it useful to give you these figures. This is demonstrated by the fact that whereas in 1955,

79 per cent of the patrons at our Chateau Lake Louise Hotel in the mountains arrived by rail and only 21 per cent by road, ten years later, in 1965, only 42 per cent of the patrons arrived by rail and 58 per cent arrived by road. Arrivals at Banff Springs Hotel during these two years follow a similar pattern.

And this trend is accelerating, gentlemen.

Operation of the "Dominion in the summer months would require use of approximately 25 diesel units which are now being used in the movement of freight traffic. As indicated in the Company's brief at Page 54, Volume I, of the transcript, there remains in the Canadian Pacific inventory only 28 diesel locomotives geared for passenger train service which are currently being fully utilized. This represents a reduction of 26 diesel locomotives, which were converted from passenger to freight service in order to enable the company to handle the extremely heavy volume of freight traffic. Furthermore, whereas at the beginning of March, 1966, as indicated in the Company's brief at Page 54, Volume I, of the transcript, 50 diesel units were being leased; this number, as of the end of May, was reduced to 32 units, 18 having had to be returned to their owners in the United States.

I would like to say, gentlemen, that we are very, very fortunate with the co-operation we are receiving from the United States railways in letting us hold the 32 units. Without them we would not have been able to do the job we have done.

Including leased and branch line units, the company now has 781 road freight diesel units in service compared with 746 in the summer of 1965. This represents an increase of 4.7 per cent in the number of diesel units available for freight service, and because of the very extensive rebuilding and upgrading program that we have been doing in our locomotive inventory on certain units, the increase in horsepower is 7 per cent in total; 4.7 increase in units, horse power increase 7 per cent.

As a result of the heavy grain movement, and the substantial increase in other freight traffic, Canadian Pacific in the first five months of 1966 handled a total of 32.7 billion gross ton miles of freight compared with 27.9 billion in the corresponding months of 1965, an increase of 17.2 per cent. The number of gross ton miles of freight handled in the first five months of 1966 averaged 6.5 billion gross ton miles per month.

On the basis of the grain targets set last week by the wheat board and in the light of other freight traffic demands, it is expected that an average of 6.6 billion gross ton miles of freight will be handled in the last seven months of 1966, an even greater volume than in the first five months.

In regard to the important job of grain movement, indications are that the volume of traffic to be handled from the beginning of June, 1966, to the end of the crop year, July 31, 1966, will be over 20 per cent higher than in the same months of 1965.

In the light of the general economic conditions and an anticipated increase in freight traffic, the company, in September, 1965, placed an order for 32 new diesel units. The first two of these units are expected to be delivered next July, to be followed by eight in August, and the balance to be spread over the four remaining months of the year.

We have no assurance, gentlemen, that the United States lines will not call back their units tomorrow. They are on a day by day basis. We have 32; they are smaller units than this but we will not have our 32 new units until the end of December. We will only get two in July.

The volume of freight traffic which the Company will be required to move this summer, is such that the diesel inventory will be taxed to capacity and, accordingly, any diversion of diesel units to passenger service must be made at the expense of the movement of freight traffic, including grain.

Skilled personnel, such as cooks and passenger equipment maintenance specialists, who formerly worked on The "Dominion" have been transferred to alternative employment or they have jobs somewhere else. In view of the tight labour supply situation in Canada, and with Canadian Pacific operating at a very high level of traffic, the necessary personnel to man and maintain additional passenger train services beyond those planned would be difficult, if not impossible, to secure in time for the summer season of 1966. In any event, other services performed by the Company would be detrimentally affected.

The addition of one more transcontinental passenger train at this time will further increase the difficulties involved in handling the present high level of freight traffic on the company's lines particularly between Calgary and Vancouver. In this area, the company has this year accelerated a capital expenditure program designed to increase the capacity of the plant between these two points, and the problems involved in meeting another passenger train on subdivisions not yet equipped with CTC—that is centralized traffic control—will have a detrimental effect on our efforts to move the nation's commerce.

You have to remember, gentlemen, that we have a single track railway, with not all our sidings extended between Calgary and Vancouver; we are spending many millions of dollars extending these sidings; and the Company has decided to expedite its CTC program by one year. We did not anticipate finishing our CTC program until 1969-70 on this segment of track, but we are now expecting to finish it in 1968. There is advanced signing on CTC equipment just when there is about a year to 18 months.

More specifically, there is established between Calgary and Vancouver a cycle of grain movement. Once again I could talk to you, Mr. Chairman and gentlemen, about the difficulties of meeting a passenger train where you have not got CTC on the single track railway, and how much time you lose by going into clear and various things like that, but Mr. Fawcett has done that in a practical way, and I know it only from observing the figures. I am sure he can tell you about it.

More important, we have used computers and other things to establish a grain cycle between Vancouver and Calgary and we are very proud, gentlemen, of the job that we have done on this cycle. Even another train in here would upset this cycle; it would slow down our movement over this segment of our railway. We also would be adversely affected in moving the very heavy trains into and through the Winnipeg terminal. We are moving a tremendous amount of freight through Winnipeg; the biggest volume, of course, is eastbound grain.

Canadian Pacific has not disposed of the cars which were used on "The Dominion" last summer, as it was directed by the Board in its judgment to hold this equipment until the Board gave its judgment relative to "The Dominion" in respect of the summer of 1967. Accordingly, the equipment has been in dead

storage for many months. Some of the cars have not moved for nearly a year. The usual shopping program for passenger car equipment during the past winter was not undertaken. Therefore, time would be required before the cars could be placed in main line passenger service.

I would like to point out to you, gentlemen, that when you leave traffic in here we have taken out the batteries, we have stripped the cars down, we have not had heat on them, and before we put cars back into passenger train service they must be very carefully examined as to running gears, draft gears, electrical situations—and matters of that kind; they have to be greased and lubricated; and we are dealing here with 150 cars. This all takes a great deal of time; you cannot do this without lead time.

Most patrons plan their movement in the summer some months in advance. It takes considerable time to prepare and institute advertising programs. You have on your Committee people, like Mr. Sherman, who have had practical experience in that regard. You have to contact travel agents and other sale agents to build up patronage for any service. As can be seen, if the Board of Transport Commissioners were, on direction, to reverse their decision regarding the operation of the "Dominion" adequate lead time must be provided, and this is not now possible for the 1966 summer season.

The last point I wish to make, gentlemen, has to do with the use of transportation resources. I start here by referring back to page 44, Volume I, of the transcript of your proceedings where we gave a definition of "effective demand". We said then:

Effective demand is the demand for a service at prices which meet the cost of providing that service. Services or goods that cannot be sold or what it costs to produce them do not possess an effective demand, and their production is an economic waste.

I have read very carefully the transcript of the proceedings up to the end of Moose Jaw; I have read what everybody has said about this; I have done as much reading as I can along with my other duties, and economic tests, and I find no reason to depart in any way whatsoever from what we said to you, when we were here for Canadian Pacific before, about the true and proper meaning of the words "effective demand" in your terms of reference, Mr. Chairman.

However, let us look at what somebody else has said here. The only person I could find who really went at it and became definitive instead of dealing in generalities was the Farmers' Union's economists, and what did they say? I quote them:

Effective demand is a schedule of various quantities of a good or service that will be bought at different prices.

They did not try to say how that was going to be applied to rail passenger service, so it is obvious that that definition of "effective demand" is unsuitable in the context of an inquiry under the terms of reference that you have; it is just impossible.

For any supply to exist in a market, the price must be such as to equate the demand with the cost of rendering the service. If the price is less than that, the service will not be produced. While the National Farmers' Union allege that the

supplier is in a near monopolistic position, this is clearly not the case, and this has been demonstrated in the evidence submitted to your Committee. Competition in the passenger market is pervasive, and stems from airlines, buses, automobiles and other rail passenger service. In the context of a competitive situation, such as the one which exists in the passenger field, the definition of "effective demand" proposed by the Company is the only logical one.

The pervasiveness of competition is also germane to the matter of efficiency. Optimum allocation of resources in the economy requires matching of marginal costs with marginal revenues of various goods and services. The payment by people purchasing goods or using services of an amount at least equivalent to the cost, brings forth the production of these goods and services. This is basic economic theory, gentlemen. That is why when somebody—I think it was Mr. Bell—suggested that "effective demand" was a "Pickersgillian" phrase, I think he said, I suggested that it may be more like Adam Smith, who is old enough to be Mr. Pickersgill's great grandfather; this goes away back.

The continued references throughout the National Farmers' Union brief to Canadian Pacific holding a near monopolistic position have, possibly unintentionally, produced confusion and obfuscation.

At Page 502, Volume 8 of transcript, the National Farmers' Union brief reads as follows:

It is worth while to note that there are experts in the field of transportation economics, who do not agree that under all circumstances the cost of providing a service is, or for that matter should be, the sole determinant of its price.

Gentlemen, I felt very strongly when I read this part, because I happen to personally know Professor Locklin. Professor Locklin was introduced to me by Mr. Frawley, who is sitting over there. He went down with all the money Alberta has and brought back this high-priced expert from the United States; and he brought him back again and again. He is a brilliant economist. When I read what he was supposed to have said—as quoted by the Farmers' Union—I just could not believe it. I went and got Mr. Locklin's book, and he did not say it. He did not say it, gentlemen. I quoted what the Farmers' Union said Locklin said, and I have quoted right below it what he did say out of the book. I will not do more than to draw to your attention the very marked differences in the quotation from his book at page 155 and the quotation that was alleged to be taken out of his book by the Farmers' Union.

I now go on with more quotations. The quotations from Professor D. P. Locklin's book, used by the National Farmers' Union which appear at pages 502 and 506, are shown in full below and the portions omitted from the National Farmers' Union brief are underlined. Once again, gentlemen, I am not going to read all that, but I just ask you to mark what they did to the quotation.

There are many quotations on this point from Professor Locklin's book which appear to have been overlooked by the National Farmers' Union and which express views entirely contrary to the concept developed in their brief. Some of these are:

If a particular unit of traffic will not move unless charged a low rate, it is profitable for the railroad to quote a low rate provided the

variable or "out-of-pocket" expenses are covered. If the railroad can get something over the variable expense this item of traffic is profitable.

You will have noticed in reading economic texts that economists equate out-of-pocket expense economically with what we call variable costs.

The conclusions to be drawn from these studies are that more attention should be paid to the long-run behaviour of costs in making rates.

That is what Professor Locklin said.

What were the Farmers' Union economists trying to do? It goes back to how they got into this problem. They got into the problem of trying to define "effective demand", as I set it out, and I said it was impractical. They tried to define "effective demand" on the demand factor basis only, and that is where they got into trouble. Then when they got into a book they found that they had to misunderstand the language which was English. They may have been short of paper—I do not know—but they got the thing mixed up. It did support their own definition of "effective demand" after they got it mixed up.

They tried to make Professor Locklin deal almost exclusively with demand factors without referring to cost. Gentlemen, this is clearly not what Professor Locklin did; and I say to you that no reputable, knowledgeable transportation economist would ever do it—none.

I go to a matter where the Farmers' Union at page 525 of Volume 8 made a recommendation that:

The Canadian Pacific Railway Company should be nationalized immediately, and its railroad and communication systems integrated with those of the Canadian National Railways.

The MacPherson Royal Commission had similar proposals made to it by similar people, and I draw your attention to Volume 2, page 235 of the Royal Commission's report, where it states:

The nature of the transportation industry, in the light of the role we believe it must play in Canadian economic development, affirms our conviction that there are benefits to be derived for the nation by the extension of competitive forces in transportation. Furthermore, we are convinced that the benefits of competition to the nation are substantially secure under the incentive of profit maximization and that this incentive can be made to work satisfactorily under a system of mixed private and public ownership, so long as publicly-owned transportation companies are instructed, permitted, and regulated to work under the criteria of normal practices.

Mr. ORLIKOW: Mr. Chairman, just a point to clear the record. Before Mr. Sinclair started this latest quotation he quoted page 235 instead of 275, as it is in the brief here.

Mr. SINCLAIR: Just for the sake of the record, it should be page 275. I am sorry. Thank you. I did not mean to change that at all.

Publicly-owned transportation companies say it will work in a mixed economy as long as they are instructed, permitted and regulated to work under the criteria of normal practices.

I go on to page 283 of Volume 2 of the MacPherson report:

In our view complete nationalization of any mode of transport in Canada is not the best way to attain efficiency of services and optimum allocation of resources in transportation without the complete abandonment, so far as it is concerned, of the principles of profit maximization and dependence upon the market choices of shippers.

I turn to President Johnson, on March 2, 1966, he sent a message to Congress on transportation, accompanied by proposed legislation designed to implement the broad and essential policy expressed in that message. President Johnson's message emphasized the fact that:

The United States is the only major nation in the world that relies primarily upon privately owned and operated transportation.

This National Policy, the President pointed out, has served the United States well and must be continued and strengthened.

In this regard, the Minister of Transport, in his speech given at Winnipeg on April 27, 1966, in setting out the basic objectives of what he considered the national transportation policy, the minister stated:

Co-ordination does not require monopolies of all transport services, either public or private.

To ensure the best transport services at the lowest cost with reasonable choice, reliance should be placed on competition where it exists in sufficient volume and strength between different carriers and different types of transport.

Canadian Pacific, gentlemen, disagrees fundamentally with the concept proposed by the National Farmers' Union. In the view of Canadian Pacific the interests of the Canadian people are best protected, and with the least burden, by a system which provides for competition by private enterprise in the national transportation field.

● (12.40 p.m.)

Canadian Pacific does not believe that socialism in transportation, or, for example, in farming, in banking or many other fields, is in the best interests of Canada. In fact, it agrees with the statement made recently by Lord Beeching, former chairman of the British Railways Board—and he had the unfortunate experience of losing over \$300 million last year—and this is what he said in a recent interview which was reported in the *Montreal Gazette*:

I don't think nationalization solves problems. It merely alters the frame-work in which they must be solved.

He added:

There is a general climate of opinion in Britain against nationalization. People have seen that it doesn't work.

This was the highest paid civil servant in Great Britain.

At page 501 of Volume 8 of the transcript, the National Farmers' Union brief quotes an excerpt from pages 11 and 12 of Volume 2 of the MacPherson

Royal Commission's report. Gentlemen, I have quoted *in extenso* here because here once again, whether deliberately or because of lack of understanding, any reading in context of the quotation changes it materially from what was put before you; because what the Farmers' Union say they endorse, by looking at this, if you leave it in its full context, it is just the antithesis of what they say it is. That is all I am going to say on that, gentlemen.

I turn to page 50 of our note, and I read:

Public policy in Canada should seek to create an efficient transport system. This we define as the objective of the national transportation policy. Opinions generally expressed before us concur in this definition. This objective we regard as of more importance than the preservation of any single mode of transport, or of any particular company offering the services of transport. Should it be apparent that a firm providing services of transport is unable to live under a policy which seeks to attain maximum efficiency, we state that the consequences of technology or economics must not be set aside to preserve any historical or preconceived ideas about the proper composition of the transportation industry.

I did not say that, gentlemen. It was the MacPherson Royal Commission that said that.

With that in mind, let us go on and see who else thinks the same way. That definition of MacPherson is remarkably similar to the views that have been expressed by Mr. Daniel P. Loomis, president of the Association of American Railroads, in his testimony on House Resolutions 13200—a bill to create a Department of Transportation in the United States which was presented at the hearing before the subcommittee on executive and legislative reorganization of the house committee on government operations on May 17, 1966.

Mr. Loomis quoted a message on transportation which President Johnson sent to the Congress on March 2, 1966, which summarized the objectives to be achieved by the proposed legislation and the vital role to be played by the federal government in the following language:

We must secure for all our travellers and shippers the full advantages of modern science and technology.

We must acquire the reliable information we need for intelligent decisions.

We must clear away the institutional and political barriers which impede adaptation and change.

We must promote the efforts of private industry to give the American consumer more and better service for his transportation dollar.

That was President Johnson's summary. Then Mr. Loomis went on to say:

No nation, even one so well endowed as our own with human and material resources, can realize its full potential unless it makes the most effective use of those resources. In other words, a nation must employ its resources so as to maximize benefits with a minimum of economic costs, whether or not the costs are incurred privately or publicly, and this requires careful and balanced consideration of the alternative means which are, or could be, made available, and in what proportions.

And further, quoting again:

It is not enough simply to go on adding to the sum total of transportation capacities on the mistaken assumption that the more that is supplied of whatever kind the stronger will be the resulting national transportation system. There is no economic strength in mere multiplicity of transportation facilities.

In the speech which the Minister of Transport made in Winnipeg, Wednesday, April 27, he outlined the basic objectives of a national transportation policy of Canada, and he cited, as a contribution made in this regard by the MacPherson Royal Commission, their definition of national transportation, which I have just given to you.

I say it is significant that the objectives of a national transportation policy, as outlined by the Minister of Transport in Winnipeg just a little over a month ago, and as I am going to quote them, are generally in accord with those set out by President Johnson in his message on transportation. I will quote from the Minister of Transportation's text, as it was given to the press:

Apart from the contributions of the MacPherson Commission, the following basic objectives should be included in a new national policy:

Because transport enters so largely into all costs in Canada, all avoidable waste in providing transport should be prevented.

Waste and inefficiency can be avoided only by the appropriate co-ordination of all forms of transport under federal jurisdiction.

Co-ordination does not require monopolies of all transport services, either public or private.

Co-ordination and the avoidance of waste to require the application, wherever feasible, of commercial principles to the provision of transport services, even where they are provided out of public rather than private capital resources.

The type of transport services best suited to each particular requirement should be used to meet that requirement.

To do so, Canada must take advantage of advances in technology in transport and the most modern equipment.

Excessive costs must be avoided by eliminating unneeded services and obsolete methods and equipment.

To ensure the best transport services at the lowest cost with reasonable choice, reliance should be placed on competition where it exists in sufficient volume and strength between different carriers and different types of transport.

Competition at non-compensatory rates should not be allowed to destroy continuing competition.

Gentlemen, perhaps a non-compensatory rate is one that does not meet its variable cost, plus something. We took that position when we were here in March.

I go on to quote the Minister of Transport:

Where effective monopoly exists, there must be means of public regulation to ensure availability of necessary services at reasonable rates.

To protect the taxpayer and control costs, users of transport should pay the costs, wherever this is economically and socially feasible.

Where subsidies are needed to provide essential facilities or services, the subsidies should be limited in time to a developmental period, or to clearly defined special situations or services which can be segregated and measured financially.

Except where subsidies are required in the public interest, transport facilities and services should be provided at the cost of the public treasury only in cases where the use is so general or the cost of collecting user charges is so great that support from the treasury is really the most economical method of paying for the facility or service.

Canadian Pacific reiterates the views which it expressed in its presentation at page 67, volume 1, of transcript:

Perpetuation of passenger services which are no longer patronized or the diversion of traffic from other viable media by the introduction of abnormally low fares to increase patronage can only result in further increases of the rail passenger deficit inevitably borne by the general public. This is most certainly a misallocation of transportation resources for which there is no justification, and it results in a disservice to the interests of the Canadian people.

Perpetuation of such services is contrary to proper use of transportation resources, as so clearly enunciated by the MacPherson Royal Commission, President Johnson of the United States and the Minister of Transport.

Thank you, Mr. Chairman and gentlemen.

The CHAIRMAN: Mr. Sinclair and gentlemen, before we adjourn I think that perhaps it might be wise to have the brief printed as an appendix, because there are quotations that have been skipped over, and there has been some skipping done in order to hasten the presentation of the brief.

It is moved by Mr. Andras, seconded by Mr. Southam that the brief be printed as an appendix to the proceedings.

Carried.

Perhaps it might be wise, before questioning begins, that we should adjourn. We have ten minutes. Mr. Bell?

Mr. BELL (*Saint John-Albert*): Mr. Chairman, there is one thing which comes to my mind in this comprehensive brief: Could we find out, in order to satisfy the long-range plans of this committee, when the CNR will come before us? It strikes me that one of the main problems, if we are going to deal in a detailed way with the contention of the CPR, is to fit the CNR into this picture.

The CHAIRMAN: We do have the CNR and Air Canada to come yet. Our problem at the moment is that after we adjourn this week we intend to bring forward the estimates of the Department of Transport next week, and, in fact, we will try to obtain permission to sit for as long as we can to get the estimates through.

We do have a number of witnesses. Mr. Burwash of the Board of Transport Commissioners is prepared to come in with some witness as to cost. The CNR is prepared to come in whenever we wish to call them.

It depends on the committee whether they wish to hear the CNR during the hearings on the CPR, or whether questioning can be done of the CNR while the estimates are before this committee.

Mr. BELL (*Saint John-Albert*): My point, Mr. Chairman, is that perhaps we can question Mr. Sinclair about some particular phase of this which we may have in mind, such as the "Dominion"; but to deal fully and finally with this very comprehensive brief I, for one, feel that in the meantime the CNR have to be brought into this picture; because I could not begin to intelligently understand the final part of the brief on transportation generally without getting the thoughts of the president of our other major railway which is heavily involved now in the passenger service.

The CHAIRMAN: I must say, on your opening statement, that we are concerned in this matter so far as the long range report and recommendations of this committee are concerned.

As you are no doubt aware, this committee intends to make an interim report, probably some time this week, if it is possible. I would agree with you that perhaps it would be best for the subcommittee to meet this week and discuss when the CNR should appear.

However, I do want to bring to the attention of the committee that the estimates have to be heard next week, and perhaps we should meet with the subcommittee later today and discuss the CNR's hearings. There is a representative of the CNR at the committee meeting today, and we can discuss with him, also, the presentation of the CNR's case dealing with the passenger service.

Mr. FAWCETT: Mr. Chairman, would it be possible to have some responsible officer from the passenger department of the CNR come in, even if it is only for a short period. Would that be of any benefit?

The CHAIRMAN: I am just saying that we should perhaps have a discussion in subcommittee about dealing with the CNR strictly on passenger service.

Are there any further questions before we adjourn?

Mr. OLSON: I wonder if you could speak with the Minister with a view to finding out if he would be prepared to appear before the Committee either at the afternoon or even at an evening session.

The CHAIRMAN: He indicated to me this morning that he was prepared to appear before this Committee some time today, or this evening.

Mr. SHERMAN: What about tomorrow?

The CHAIRMAN: Tomorrow too many members will be missing. Caucus is in the morning and there is the Expo '67 trip tomorrow.

Mr. SHERMAN: I know it is a problem, but I would suggest that it may be impossible to finish with Mr. Sinclair by the end of the afternoon.

The CHAIRMAN: We will see how the afternoon carries on, Mr. Sherman.

Mr. ROCK: Mr. Chairman, the CNR usually comes here for a special purpose, and that is with reference to their financial report. According to our terms of reference we deal with only CPR and yet we are trying to fit the two together somehow.

The CHAIRMAN: I think the subcommittee should discuss this.

Mr. ROCK: On this question of passenger service, would you warn the CNR that this is the purpose for which they will be coming, or will they be coming with their financial report and we will fit in the questions during their—

The CHAIRMAN: If the CNR comes here while we are on the CPR hearings they will be coming strictly on the basis of passenger service alone. That is why I suggested that the subcommittee should discuss this.

Mr. ROCK: But I think they should be warned before they appear.

The CHAIRMAN: We have a representative of the CNR here and I am sure he will relay that to the CNR officials.

Mr. ALLMAND: Mr. Chairman, in several items there have been a real joining of issues between the CPR and some of the other briefs. In other words, today Mr. Sinclair has said "This is not true", or "this is a wrong interpretation". It is of course, up to us to decide who is right and who is wrong on these differences of opinion, but it would seem to me that we would have to have some expert assistance from an economist or an accountant. With all due respect to the experts that we have here I would say that many of us probably were not in a position today to pin Mr. Sinclair down, just as we were not in a position to pin down some of the other witnesses who appeared, by saying "This is an accounting problem. How do you explain this with respect to that?" and so forth.

The CHAIRMAN: As indicated to you we will be having some cost analysts of the Board of Transport Commissioners here, and it is also the intention of the Committee to retain its own independent cost analysts.

Mr. ALLMAND: Do we intend to retain our own experts?

Mr. ROCK: We have not made a decision, Mr. Chairman. We have spoken about it, but no decision was made.

The CHAIRMAN: We have not retained anyone. This will have to be discussed at a subcommittee meeting. There was no vote on it, Mr. Rock.

Mr. SHERMAN: Mr. Chairman, I think you may have missed the significance of my question.

The CHAIRMAN: No, I did not miss the significance of your question, Mr. Sherman.

Mr. SHERMAN: Is there any pressure to finish with Mr. Sinclair in order to fit the Minister of Transport in today?

The CHAIRMAN: None whatsoever.

Mr. SHERMAN: All right; thank you.

Mr. ROCK: When do we meet again, Mr. Chairman?

The CHAIRMAN: We meet immediately after the question period.

Mr. ROCK: Are we asking for permission to sit while the House is sitting?

The CHAIRMAN: We already have permission as of last Friday.

We will now adjourn until 3.15 or 3.30.

AFTERNOON SITTING

The CHAIRMAN: Order, please. Thank you.

Mr. FAWCETT: Mr. Sinclair, on page 16 you say: "Where the rail passenger service has become superfluous and wasteful, in the interests of maximum productivity, as well as in compliance with the contract made by the Company with the people of Canada, it should be eliminated." Could you expand a little on what you consider superfluous and wasteful?

Mr. SINCLAIR: Well, with regard to the first word, I would think it is where the capacity being offered is greater than the demand for it; wasteful is in the economic sense, and that is where the cost of providing it is greater than the revenues being received.

As I said before, Mr. Fawcett, you can stimulate demand on the demand factor basis without relationship to cost and that is why I have made it conjunctive rather than disjunctive. In other words, just because people can be stimulated to move by rail by give-away fares or fares that are very very low, that does not meet the problem; the problem has to be met in economic terms. Otherwise, as I say, you do not get maximum productivity, and on that basis as well as by contract, the train should be eliminated, contracted or adjusted.

Mr. FAWCETT: In other words, your previous interpretation of effective demand would still apply; if there was not the effective demand this service would be considered superfluous and wasteful. Is that right?

Mr. SINCLAIR: Yes; basically yes. I think, as I said earlier, the only brief I saw that tried to put a definition on it was the Farmers' Union and it dealt only with demand factors. That, of course, is not proper a factor when considering effective demand, otherwise they would not have put the modifying word "effective" before the word "demand". Straight demand factors in economics are unknown in the context in which we are using them. Then I went on to explain just a little bit about marginal costs and productivity.

Mr. FAWCETT: Well, in line with that though, the mere fact that people perhaps were using that service would not necessarily mean, as you stated before, that there was an effective demand, that it still could be considered as a waste of our resources?

Mr. SINCLAIR: Mr. Fawcett, you will recall that we made a study in the fall of 1965. We gave in our brief the very few people that were riding it. We also gave you the figures of how many people were using the sleeping cars back in 1960, and this demonstrated beyond any question, as I see it, that there was no effective demand for the service.

More people did use it, of course, when the rates were dropped down to around two cents per mile, and you just cannot operate on that basis, Mr. Fawcett. It is impossible.

Mr. FAWCETT: Well I can agree with you that between 1959 and 1960, because I know this from experience, and perhaps even later than that, passengers were leaving the railways; but do you not think there is a possibility that this trend has been changed, that people are anxious to get off the highways now because of the highway hazards and would go back to the railway?

Mr. SINCLAIR: Well, there is a hazard in everything we do, Mr. Fawcett, even walking over here to discuss things like this with you, and yet we do it because we like to discuss problems. For instance, we drive our cars; we know there is a hazard. There is a hazard getting up in the morning; there are hazards in all aspects of life. I drive in a city that has as bad traffic conditions I think, as anywhere in Canada, and I drive on Quebec highways and I do not find them that congested. You have to remember that Montreal is an island and even in the very heavy outgo on Friday and Saturday and in on Sunday night you have to make the bridges and I do not find them that congested. As a matter of fact they are not as congested now as they were a couple of years ago around Montreal because there have been substantial amounts of expenditures made on highways and improvements on bridges, and others are under way. Then I go over to Toronto and I look at the Gardiner Expressway; I look at 401; I look at the expansion to 11 lanes in some of these highways, and I see a greater capability of highways all the time. Sure, it reaches a certain peak. But every figure I have seen, Mr. Fawcett, does not show that that trend is so. At a certain fare level you can do it, there is no question about that, but that is putting it down too low, based on our experience. And you have to remember this, Mr. Fawcett, we must recognize that we are going to get a higher cost level, not a lower one. I mean we are in negotiations at the present time, and I do not want to talk about it for that reason, but it would be unrealistic in the light of movement in the last two years not to recognize that there is going to be some movement, if I could put it that way, some movement; and by that I mean some upward adjustment, not some downward movement.

Mr. FAWCETT: When you were discussing regression analysis this morning you mentioned that there were some costs that were attributed to the "Dominion" that were actual costs and other that had to be arrived at through regression analysis. Did I understand you correctly?

Mr. SINCLAIR: Well, Mr. Fawcett, you do it in three steps really; those in the primary accounts that are directly identifiable and assignable, like wages for train crews on a train, and those are kept right in the primary record and we take them. Then you have some special time and motion studies about putting a train away at a certain time; you have those kinds of studies so you know that. Then you have the third group, which are joint costs, and in that area we use regression analysis with the various independent variables to make the cost separation between the various services.

As I pointed out this morning this is a statistical tool. Regression analysis is not a cost accounting system but merely a statistical tool that is used in the development and breaking down of joint costs, which is a small proportion, actually, of all cost assignments.

Mr. FAWCETT: Well, repairs to cars, repairs to roads and so on would lend itself to very accurate accounting because you would have the costs of those actual repairs, whereas perhaps maintenance of way, engine house expenses, yardswitching, and that sort of thing would have to be arrived at through regression analysis.

Mr. SINCLAIR: With regard to cars, of course, we do not maintain a cost sheet on each and every car and every time it comes into the shop put it onto that car; we know what a class of car costs and we know how many of those

cars we have and then you apply the unit cost of that class of car to your total inventory of that class. Maintenance of way, yes; maintenance of way is regression analysis.

Mr. FAWCETT: I was wondering about something else too. What does full occupation of coach seats mean, in your opinion? Does this mean a paying passenger in each coach seat; does it mean coach seats taken up by children for which there is no revenue, of a combination of these?

Mr. SINCLAIR: Well, of course, when you talk 100 per cent load factor you mean that every seat is taken on which there is revenue coming from it and you put it into an equation just like you do on an airline; a certain factor to take care of pass fares and babes in arms, and of course you do not count them, and if the seat is sold the mother or father holds the small child on their knee—on an air line they put it in a crib. You put this in; but if you are asking me whether you have to get full fare for each seat before you get 100 per cent, no. It means that there is revenue on each seat.

Mr. FAWCETT: That was my question, because I know that this is a problem too.

Mr. SINCLAIR: Well I am quite sure that you find certain people bring in small children and they appropriate, if I may use the word, spaces beyond what they may have paid for and the train may look fuller than it actually has been paid for.

However, as the conductor comes along and if he sold the seat he has the job of bringing the matter under control, Mr. Fawcett; I am sure you have that problem yourself.

The CHAIRMAN: Mr. Fawcett, your time is up.

Mr. FAWCETT: I will pass for now then, with the understanding that I can come back again.

Mr. HORNER (*Acadia*): Mr. Sinclair, on page 33 you deal with the question of downgrading services which happen first. We have had a lot of evidence to indicate—and perhaps you are well aware of this—the service fell off and, therefore, the passengers felt they were no longer wanted and quit travelling. You try to make a case here or, in your words, you make a case that the service actually was upgraded. How old are the cars you are now using or were last using on the “Dominion”?

Mr. SINCLAIR: Well, when we upgraded it in 1955 and ran until 1960 the cars were brand new. The Park domes, the Manors, the Chateaus, the diners and the deluxe coaches were all brand new. They were all purchased in 1954 and delivered in 1954-55. That was the kind of cars that I delineated on page 33.

Mr. HORNER (*Acadia*): Was the consist of the “Dominion” brand new in 1954-55?

Mr. SINCLAIR: The complete consist. We had at least one; we had of course only one Park dome on the rear; we had one Skyline; we had one diner that was a new diner; the other diner would be a Tuscan Red diner; we would have at least one Manor and we generally ran two; and we generally ran two Chateaus. There would be an addition to that, as I have said, the best of the

Tuscan Reds in addition to fill out the consist. As a minimum on that there would be seven, and generally more than that; but there was a minimum of seven and that was the way it operated, that was part of the consist and so on until 1960, when we cut it back.

Mr. HORNER (*Acadia*): Well I find it difficult—

Mr. SINCLAIR: May be you can help me. I find it very difficult to really remember what it was like riding in a Northstar before they put the overpasses on those Merlin engines; I know that they were noisy and an uncomfortable ride, but I find it difficult to remember it. Somebody might say that they were deliberately making the ride on that Northstar a rough ride for me, but I do not believe it. They were an awful good airplane; the first ride I had on them I thought it was terrific.

Mr. HORNER (*Acadia*): The last ride I had on it I thought it was dashed poor, to say the least.

Mr. SINCLAIR: Well, after all, as I say, Mr. Horner, it is a long time, you know, between 1955 and 1966; it is eleven years.

Mr. HORNER (*Acadia*): I accept that it is a long time, but I am not convinced although, as you say, you make your case that some of these cars were new. I am not convinced at all that the CPR really tried to maintain the service and my fear now is, and you can correct me if I am wrong, that you are doing the very same thing with the "Canadian".

Mr. SINCLAIR: Well I can assure you, and I do not know what I can do with your fear, Mr. Horner, that we are not going to downgrade, if you want to use that word, the "Canadian"; we are not going to downgrade it because we are proud of the train. I said here before that I for one certainly have not given up on making the "Canadian" a reliable operation, and I am very sincere in that.

I think we are getting a little bit of backlash, a little bit of backslip right now because people are thinking and they are reading articles that we are not in the passenger business and I think that maybe it is hurting us a little bit right at the moment on the "Canadian", but we are running a good train.

Mr. HORNER (*Acadia*): Is the "Canadian" meeting your definition of effective demand?

Mr. SINCLAIR: As I said to you before at the present time it is showing a loss. We are still involved in our price adjustments in it. We are not getting a load factor on it that I think is justifiable; the figures we have given to you show for the month of May the load factor is away below where it should be. This train should operate on a minimum load factor of 75 to 80, and it is operating at 50 to 65.

Mr. HORNER (*Acadia*): Have you done anything to modernize the reservation system on either train, the "Dominion" or the "Canadian", in recent years?

Mr. SINCLAIR: Well no, Mr. Horner, we have not. We thought we had, as I explained before, with this tie-in that we had and our assignment of space to various areas and check-backs to our telecommunications and release of space, and with our lazy susan type we thought we had a good system in light of the volume.

You can set it up on a computer, we have some of our hotel reservations on a computer system, but you have to have heavy volume; it is expensive and we have not got it even for our whole air line because we have not got the volume of traffic for it. Air Canada have it, and I read somewhere where the Canadian National were going to introduce it next year in regard to coach; I understand they are going to put it on top of their Air Canada level to use that, and they said they were going to try to extend it to sleeping cars. It becomes more costly as you get the variations in the types of equipment.

Mr. HORNER (*Acadia*): If you feel your system is satisfactory and is not discouraging passenger travel, how do you explain then the number of times the Committee has had evidence submitted to it that people have got on the train, were not sold a space or given sleeping accommodation because they were told there was none available and then they got on the train and found plenty there.

Mr. SINCLAIR: Well number one, Mr. Horner, from a person who travels quite a bit, some of that is undoubtedly no show. Secondly, some of it is due to segment traffic; in other words they see empty berths or empty seats leaving Calgary and they are going to be picked up at Medicine Hat or Swift Current; that is the segment traffic. Thirdly, there are last minute cancellations and we have not time to release the space. Travel plans change, sickness comes along, one of a thousand and one other reasons.

However, we were disturbed at the amount of this evidence because we just cannot understand it and as a result of that we set up a special committee, a group of our experts in telecommunications, our research people and, as I said in here, they are presently conducting a study. We are doing various kinds of checks, Mr. Horner, both unknown and known checks, efficiency tests, if you want to put it that way.

Mr. HORNER (*Acadia*): You suggest in your brief that people can travel by other means, and even go so far as to suggest the Canadian National Railways and that the Canadian National is upping its sleeping accommodations by 20 per cent, or some figure like that. Why is it that the Canadian National finds this profitable and the Canadian Pacific does not? Now are we as, in a sense, directors of the Canadian National sitting here and allowing them to invest in a false venture, in your opinion?

Mr. SINCLAIR: I can only speak from what I know, Mr. Horner. They have said and indicated that they are increasing their capacity on these two trains by 20 per cent, and all I am doing is listing where tourists are going to travel. They have increased the consist of their train; we have a heavier consist on the "Canadian" than we had last year, they have filled out their consist on their trains likely to full tonnage and to make the time; that accounts for some of it.

I think the Canadian National, Mr. Horner, is in an experimental stage. I wish them well. I think they are wrong; based on all the information I have and based on all the judgment that we can give it, we know they are wrong. However, if it proves otherwise the only thing for us to do is to admit that we have made a mistake and reverse ourselves, but we see no indication of that, none whatever.

Mr. HORNER (*Acadia*): You think they are wrong; you know they are wrong; the "Canadian" is losing money.

Mr. SINCLAIR: We know they are wrong on the basis of the information that we have.

Mr. HORNER (*Acadia*): On the information that you have. Your "Canadian" is losing money.

Mr. SINCLAIR: Yes.

Mr. HORNER (*Acadia*): You suggest that the "Dominion" should be cancelled because there is no longer effective demand for it; you know from your best information that the CNR's experiment is going to be proven wrong. How can you convince me or this Committee that the "Canadian" is not on its last legs too then?

Mr. SINCLAIR: Because it is one thing to operate two trains; it is another thing to operate one. The Canadian National, you see, have both their supercontinental and their panorama on a full basis. We have not had that except in the summertime since 1960. As a matter of fact, as I recollect it, their load factors were substantially below ours—I am talking on the transcontinental route—and I just think it is wrong to have a passenger deficit; I think it is wrong for Canada to support a passenger deficit. It does not matter, Mr. Horner, whether private enterprise is losing it or public funds are being used of millions and millions of dollars a year. Ours is over \$20 million and, as I say, I do not know what theirs is but it was, on the basis of what the Royal Commission did in 1958, over \$50 million. I would think it has likely gone down some because, as I say, they have got rid of trains and they do have a higher load factor.

What you have to watch is this. Car miles are one thing; they cost something, but train miles are extremely expensive. One of my associates has referred me to the Canadian National annual report for 1965, page 10, and I am quoting, on passenger service:

The Company, therefore, will concentrate on providing such passenger services as may be required in the heavy density population areas. Steps will be taken to seek withdrawal from, or obtain public monetary support for, those unprofitable services which do not fit into that pattern, the objective being to eliminate the deficit in passenger operations.

When you read it like that it is not too different.

Mr. HORNER (*Acadia*): The Canadian Pacific received part of a subsidy here a few years ago and maybe still is in lieu of passenger travel; am I right or wrong?

Mr. SINCLAIR: I would say you are wrong.

Mr. HORNER (*Acadia*): Did you not receive something after the MacPherson report came out?

Mr. SINCLAIR: Oh, I understand what you are saying to me. In lieu of the recommendation certain grants were made; however, Mr. Horner, our rates were frozen and our ability to adjust our plants was frozen under arrangements made, and the amount was nowhere near the recommendations of the Royal Commission.

Mr. HORNER (*Acadia*): One more question, Mr. Chairman, and that is with regard to passenger train feasibility. We see the Canadian National going into a

whole new concept of passenger traffic between Montreal and Toronto; in your best judgment is it feasible to put on a passenger train which there will be effective demand for and it will operate efficiently, under your definitions of efficiency.

Mr. SINCLAIR: Between Toronto and Montreal?

Mr. HORNER (*Acadia*): Anywhere where there is passenger traffic.

Mr. SINCLAIR: Yes, I think there are places where it might be done. At the present time commuters is one, in the Montreal area on our line. I think at the present time there is only one road in the Toronto-Montreal area that bears more than meeting their variable costs there; that would be my guess, because I do not know—certainly in regard to day travel between Toronto and Montreal that would be my guess, based on my judgement of traffic patterns with one road in there, and with the type of equipment they now have and the cost of it.

● (3.50 p.m.)

As to the high speed trains I think there is some misunderstanding, Mr. Horner. The Canadian National statement said that they would operate this train in 1967 up to 100 miles an hour. We operate 90 miles an hour between here and Montreal every day. Up to 100 miles an hour is one thing; 160 miles an hour is another thing, and a 160 mile an hour operation means you have to have a secure right-of-way and you have to have signal circuits that are much longer than they have, and you have to have different kinds of line and surface than you do for up to 100. That is when you get into real money.

All I ask you to envisage is a train going 160 miles an hour and hitting a low bed at a level crossing; you are in the bullrushes.

Mr. OLSON: Mr. Chairman and Mr. Sinclair, I have 48 questions here but because of the time factor I am only going to ask you four.

Mr. SINCLAIR: I would like to say, Mr. Olson, as I said to your Chairman, and as Mr. Crump said, we are at the call of this Committee and while I cannot be here tomorrow I can come back this Friday. I would be very glad to try to answer any questions that you have, whether it be 48 or 148.

Mr. OLSON: This Committee is also very cognizant of the time factor in so far as summer service is concerned, and I am sure you are too; in fact you have drawn this to our attention.

The 48 questions involve certain inconsistencies in the argument that you advance and I am going to take four of them. For example, you said, on pages 47 and 48, quoting chapter and verse from the MacPherson Royal Commission, from the policy statement made by the Minister of Transport and the policy statement made by the President of the United States—I will not quote them back to you—to the effect that here are benefits to be derived for the nation by the extension of competitive forces in transportation.

It seems to me Mr. Sinclair, that you have used all of these arguments to buttress or support your argument before this Committee; yet it seems to me that the whole purpose of your application to the Board of Transport Commissioners and the terms of reference of this Committee, is for you to withdraw from providing this competitive factor. This seems to me an inconsistency and

yet you seem to want to be on both sides of the fence at the same time, whatever happens to suit your argument. You lost me, and I listened very attentively to you.

Mr. SINCLAIR: I accept this responsibility fully Mr. Olson, and it is all my fault if I lost you, because I am not trying to be on both sides of the fence at the same time. And, with respect, I am not being inconsistent. Competition is in here intermodal, and you do not have numerous trains to provide competition. You have intermodal competition and it is pervasive, and anybody who lives and understands the transportation business in Canada will understand that completely. There may be only restricted competition in the air transcontinentally, but well we will not get into that, Mr. Chairman. That is another matter.

Mr. OLSON: On pages 28 and 29 you suggest that the "Canadian" will provide all of the space that is necessary to meet the demand for the summer season in 1966. Are you saying that you are not now turning away people who have requested space on this train for the summer season of 1966?

Mr. SINCLAIR: I have given you statistics for the month of May.

Mr. OLSON: I know the statistics, because I know that what the statistics contain are the people who actually get on. What I am asking you is whether or not you are able to accept all of the requests for transportation during the tourist season.

Mr. SINCLAIR: Well, we are making a study at the direction of the Board. We will give them the figures; we did make a study for the heavy Easter period. When I was here the last time, Mr. Olson, as I recollect it, somebody along that table there was pointing out that we were not going to be able to handle the traffic at Easter; they were saying "here comes Easter and you are not going to be able to look after it on the "Canadian". We kept a very careful record and as I said this morning, we could not meet the travel requirements of only one-twentieth of one per cent on the days that they wanted and only one per cent where we could not meet their full desires on space.

Mr. OLSON: Mr. Chairman, because of the pressure of time I only get ten minutes. I wonder, Mr. Sinclair, if you could answer the question that I asked. I asked you if you are not—and I underline "not"—turning away any people who request space for the summer season?

Mr. SINCLAIR: As far as I know, we may be filled on a couple of days around July 1. I think every transportation agency hits that; but when I made the last inquiry, which was the end of last week, we had outstanding space spread pretty well all across the summer season. Now I think we are very high right around the July 1 week end; I think that is so—I am trying to get out west on Air Canada and I have been told that I am on a waiting list.

Mr. OLSON: Mr. Chairman, Mr. Sinclair does not answer the question. I do not care how much space you have, I am asking if the people who are requesting space are being turned down?

Mr. SINCLAIR: My answer is we have space for every day right now. We have not got all kinds of space for all days.

Mr. OLSON: Have any of your agents at the five reservation points across the country turned away people who have asked for space for the summer. It is

not a question of whether you have the space or not. I have been on the train many a time and there was lots of space immediately after I was turned down.

Mr. SINCLAIR: Mr. Olson, the report and the information I have is that specific space, "give me two back to back compartments out of Medicine Hat to a certain place," yes, they have been turned down. But at the same time we have roomettes; we have lowers; we may have a drawing room Medicine Hat to Toronto. My information, and I have just got it, as of the last time we made inquiries from our reservation bureaus across the country, which was towards the end of last week, Friday or Saturday, is that there was space available every day as of then, even including the heavy weekend.

Mr. OLSON: Referring to another subject, Mr. Sinclair, you complain about the inconsistencies and the misunderstanding of a lot of people who made representations, including the Farmers' Union, Mr. Mauro, Mr. Brazier and so on. Now you continue to use this figure of \$26 million as the variable cost for 1964, and yet there is an item in there of about \$2 million and some odd for cost of money that has been rejected by the Board of Transport Commissioners, to my knowledge, every time it has been advanced by the Company, and you still continue to use it and rely on this figure.

Mr. SINCLAIR: With respect, Mr. Olson, with great respect, they have not rejected it. What they said was that we are going to a "bare bones" basis. I will tell you why they have not rejected it; it is because they have no statutory authority to confiscate property, and you have to have that specifically in law.

Mr. OLSON: They have said, and so did the MacPherson Royal Commission, that you cannot claim a cost that was not in fact expended, and when you did not borrow the money there is no cost of money involved.

Mr. SINCLAIR: Well with great respect, Mr. Olson, there is nothing in the MacPherson Royal Commission that says that; there is nothing in the Board that says that, and I have been in these cases and you are completely wrong.

Mr. OLSON: Well, when I have time I will look up the evidence, Mr. Sinclair.

Mr. SINCLAIR: I gave you the quotation. They said "bare bones" and they put it in quotation marks, and it is quite understandable why they did.

Mr. OLSON: We will look up both figures, Mr. Sinclair. I do not think I will have any difficulty finding it.

Mr. SINCLAIR: In any event, we took the Board's basis, as you call it, the Royal Commission basis in that \$26 million.

Mr. OLSON: On page 40 you say that it will require 137 cars to run the "Dominion" for the summer season of 1966.

Mr. SINCLAIR: It would take 150; 137 actual 13 standbys.

Mr. OLSON: All right, 150. I was wondering why you charge up depreciation, repairs, and so on, on 353 cars for the "Dominion" in 1964, if it only requires 150, including the standbys to operate this train.

Mr. SINCLAIR: Can I do it again, Mr. Olson? I do not know why this is so difficult, but it is my fault. As I told you, in 1964—and this is why people fall into error—as an integral part of the "Dominion" were trains 4 and 5 from Winnipeg to Vancouver.

Mr. OLSON: Does it take 200 cars to run those two trains?

Mr. SINCLAIR: Wait a minute. This is factor number one. In addition, in 1964 the whole of the head-end was in there. In addition, in 1964, we were running sections on tours, and these are the figures from our records.

Mr. OLSON: You told us before that it takes on the average year around probably 16 cars for each train, that it requires seven sets of trains; 7 times 16 is whatever it happens to be, 130 some odd, and yet you charge out 353 cars, this is where the costs are involved in this \$26 million, and yet you consistently try to use this \$26 million as the variable costs attributable to the "Dominion" alone. This is incomprehensible.

Mr. SINCLAIR: Well, I am sorry it is incomprehensible, Mr. Olson; it really is very simple. If you will look at the consist of our train seats you will see that the train is up to 24, 25; 17 is the minimum consist without head-ends. And I told you again and again that the 1964 situation is not what we are dealing with now.

Mr. OLSON: Maybe that could apply to the demand for space.

Mr. SINCLAIR: Unfortunately the demand has gone down substantially since 1964. Unfortunately you are right.

Mr. OLSON: I have just one other point here, Mr. Chairman. I see my time is running out. You complain that it would be difficult for you to get the cars ready to go and that you do not have the locomotives to pull this train; yet in the judgment at page 17, or the supplementary, it says "I would require the company to keep the passenger equipment of the "Dominion" available against the possibility that they may be needed." It does not say cars; it says the equipment. Now you tell us that you have not got it and they have been sitting where you cannot get them ready for operation and so on. Is this in defiance of the Board's order?

Mr. SINCLAIR: Of course not, Mr. Olson. It is not in defiance and, as I said, we have carried out these matters entirely. It says "that may be needed in 1967."

Mr. OLSON: Well if they are needed in 1967 they must be available in 1966.

Mr. SINCLAIR: Oh, of course not, Mr. Olson. We put them into dead storage; we strip them. We have not done any work on them. We did not do a shop program last winter because we had the Board's orders. As I said in our submission, we did not dispose of the equipment; we have turned away some offers for the equipment because we are under direction to hold it. We did not even have heat on it last winter. There are broken windows in it, unfortunately; there are no batteries in it; it was without heat all winter; some of the cars have not moved for nearly a year; there has been no checking of draft gear; there has been no checking of running gear, and to suggest that we are in defiance of the Board's order, Mr. Olson, I am sorry, I could not agree with you and I am sure the Board would not agree with you either. We are certainly not in defiance of the order. We have kept the equipment but we have kept it having in mind that the Board, knowing the situation, if they wished us to put it on in 1967 would give us lead time to bring the equipment, to check it over to re-equip it and to bring it into shape. That takes quite a lot of time, Mr. Olson.

Mr. OLSON: On page 42, Mr. Sinclair, you say that no new diesel units had been delivered to you during recent months, but that you expect to receive some in July.

Mr. SINCLAIR: That is correct.

Mr. OLSON: With 32, I believe, on order as of September 1 or 7, 1965?

Mr. SINCLAIR: That is correct.

Mr. OLSON: Now I read in the paper only a few days ago that two of these super diesels, something like 3,000 horsepower or so, had been delivered to your Calgary field run in there, is that not so?

Mr. SINCLAIR: No, it did not say that. It said that we had two m.l.w. 3,000 horsepower units that we were testing.

Mr. OLSON: They are not yours?

Mr. SINCLAIR: No, they have just come out of the shops down in the United States. As a matter of fact they belong to the Union Pacific Railroad and, Mr. Olson, the test has shown on those units that they cannot be used on our railroad on account of flangeware on the truck, and it is ten months away from even having the first truck that will meet the requirement available for our railroad.

Mr. OLSON: How long is it since you have had a new diesel delivered to the CPR?

Mr. SINCLAIR: Oh, let me see; we got 12 in 1964. We upgraded 60 in 1965, we had 1,500 horsepower and since we have moved to 2,500 horsepower.

Mr. OLSON: Well I am asking you about new units that have been added to your fleet.

Mr. SINCLAIR: Well, I would say they are new units; when you upgrade them what you do—all you come back with are bits and pieces; you have a new locomotive.

Mr. OLSON: You did not get any in 1965?

Mr. SINCLAIR: Yes, we got 60.

Mr. OLSON: Sixty units in 1965?

Mr. SINCLAIR: Yes, 60 upgraded units, to my recollection.

Mr. OLSON: Are these additions to your fleet?

Mr. SINCLAIR: No, they were ones that we had turned in. Just a second while I look at my records. There were 62 I am told.

Mr. OLSON: Is it not a pretty unusual thing for a company that requires over 1,000 units in its fleet not to arrange things so that they have delivery of even one unit between September, 1965 and July, 1966?

Mr. SINCLAIR: Not at all. Actually, Mr. Olson, we turned in these units short of what we call their cycle; they were road units. We work them on a 20 year cycle; we turned them in on 15 and 17 year cycles. They were 1,500 horsepower; we turned them in on 2,500 horsepower, used some of the parts and rebuilt the locomotive, 62 of them. This is why, as I pointed out to you, we had an increase in units, I think, of 4.7 per cent but an increase in horsepower of 7 per cent.

The ones that we purchased, the lead time, as you can see we put the order in in September of last year and we are getting only two in July. We have the full impact of G.M.D.'s plant at London to deliver those 32; that is all they are building, starting next month right to the end of the year.

Mr. OLSON: I have many more questions, Mr. Sinclair, but my time is up.

Mr. SINCLAIR: Well I would be glad to come back. I would like to discuss them with you. Mr. Olson.

Mr. ANDRAS: Carrying on with this question of the "Dominion" and the Board of Transport instructions or order regarding retention of equipment for Expo year, 1967, I had the pleasure last week of attending Expo with the Finance Committee of the House of Commons and we heard some very interesting figures projecting the possibility of the number of visitors in Canada. Their survey indicated: 4,251,000 Canadians have positively indicated they would travel to Expo in 1967, some 3 million probable, some 5 million possible, a total of 13 million in their projection, which is almost 65 per cent of the Canadian population right now.

Mr. SINCLAIR: I am sorry, you lost me. You mean 4 million and the 3 million are plus and then the 5 million on top of that?

Mr. ANDRAS: The plus is on top of the other, categorized from definite to possible.

Mr. SINCLAIR: I follow you, yes. That is from April to October, is it?

Mr. ANDRAS: It would be from April until October which, even if it were a full year would represent a very great increase, I suggest, of travel next year. We all hope for this in terms of Expo '67.

Mr. SINCLAIR: Are these all people outside of the greater Montreal area?

Mr. ANDRAS: This is the whole of Canada and it did get qualified by the suggestion that this might be turn-over rather than individual people.

Mr. SINCLAIR: And include Montreal?

Mr. ANDRAS: And include Montreal, but even if we water it down to that degree it is potentially a very large increase in travel.

Mr. SINCLAIR: Well, for instance, I expect to go ten times myself as a minimum.

Mr. ANDRAS: They did not figure more than about three times—

Mr. SINCLAIR: If everybody in Montreal did that, that looks after it all.

Mr. ANDRAS: Mr. Sinclair, without fencing about it, I think we are going to have a large and sizeable increase in Canadian travel in 1967 to Expo, otherwise Expo is not going to be a success.

Mr. SINCLAIR: I agree with that; I agree that we are going to have a lot of people into Montreal and I certainly agree that if they did not come it would not be a success. I know it is going to be successful, so I agree with you 100 per cent.

Mr. ANDRAS: Fine. In addition to that they estimate that 5 million Americans will visit Expo and some 300,000 Europeans, so it adds up to a colossal package, and we wish them every success in attracting this crowd. It is going to

represent a great burden on transportation of all types. Now I am a little concerned, as I think Mr. Olson was at the general implication in your pages 41 and 42 with regard to the "Dominion" equipment. Are you taking the Board of Transport reference to retention of "Dominion" equipment, as it came out a few months ago, as a tentative thing?

Mr. SINCLAIR: Oh, yes.

Mr. ANDRAS: And what would you require from the Board of Transport to remove it from the area of being tentative to becoming an instruction?

Mr. SINCLAIR: Well they are seized with the matter. They say they remain seized of this and I think, if I may speculate, what the Board is doing is looking at the detail of our carryings in 1966. They have looked at Easter; we are keeping day by day records for them from June through September, and in the light of that information and in the light of the projections they get they will decide whether they wish to direct us to run the "Dominion" in 1967, being Expo year.

Mr. ANDRAS: And what time would you need to be ready for that?

Mr. SINCLAIR: Oh, I would think that to do the shoppings that we would be doing and everything we would like a judgment from them in this regard in the fall, the late fall; that would give us lots of time.

Mr. ANDRAS: If this came forth in, say, September of 1966 to have the "Dominion" equipped and ready—

Mr. SINCLAIR: We would not need to know that early, no. I would say late December of January and we would have it available for the summer of 1967. We do not slot, Mr. Andras; we do not firm our work slots until February or March. I am informed January or February, but around that time. That is doing quite a bit of work.

Mr. ANDRAS: Moving to the "Canadian" then, on page 31 you refer to Mr. Crump's comment made at the first hearing at which the CPR management attended. I think in all fairness there was some reason for the Committee to be a little concerned about your projection at the time the "Canadian" might run, because Mr. Crump did make this point your predecessor, when we got down to years, was very careful not to extend past, say, 1968. Has there been any change of mind about projecting the "Canadian"?

Mr. SINCLAIR: All I can say, Mr. Andras, is that I heard what Mr. Crump said; I know what I said, and I heard what he said. What I have done here is put what Mr. Crump said and repeat what I said.

Mr. ANDRAS: We still have the phrase "many years to come" rather than say 1970 or 1972, or anything definite like that.

Mr. SINCLAIR: That is the way I feel. I feel very strongly that we can make the "Canadian" a viable passenger train. I have not given up on that; we are going to give it a real go. This will require a fair adjustment and various other things, but I have not given up on it.

Mr. ANDRAS: This is a very sincere question, Mr. Sinclair, and this is not to imply that the others were not, and we of the Committee are going to have to reach some decision with regard to our own recommendations anyway.

Mr. SINCLAIR: I understand that.

Mr. ANDRAS: We have been through all the briefs referring to the CPR's obligations under the agreement; we have heard all the evidence pro and con about the deficits, the cost of operating passenger trains and so on. To me it is arriving at the one question whether the continuation of passenger train service is in the public interest; whether it is an outmoded form of travel or whether it would be premature to do away with passenger train service. In the end this is going to be the fundamental question we must answer and the degree of passenger train service that fits into that. Do you follow me?

Mr. SINCLAIR: I am following you. I mean I am hearing what you are saying.

Mr. ANDRAS: Well you agree that this will be ultimately the pertinent question that must be answered. This is not an attempt to trap you. Let me go on to say whether it had to be subsidized or whether it had to be a deficit charge by the CPR, the first question we must answer is whether it is in the public interest to maintain passenger train service.

Mr. SINCLAIR: I agree that that is the question that is before you, yes.

Mr. ANDRAS: Right. I am not asking you for the answer at this stage, although I hope to get some impressions.

Now you make a great point of the question of effective demand defined in terms of meeting the costs—a profit or loss approach to it. What is the Canadian Pacific Railway passenger train operation; what is its position in terms of cost relating to, say, air travel, related to, say, highway travel, in terms of some of the capital investments that you are required to make in rail passenger service as opposed to say, that you are required to make in air line service. I am thinking of airports, designs, research development, aircraft and so on.

Mr. SINCLAIR: Well, first you say that this is a profit and loss approach by the CPR with regard to effective demand. I would like to have you recognize this not as that. It is what is the proper utilization of scarce resources approach. It is an economic approach. It is unfortunate, you know, Mr. Andras, that some people think that there is something wrong about profit and loss appraisals.

Mr. ANDRAS: Mr. Sinclair, there is a time problem here. I am not attempting to trap you into facetious argument or to be facetious myself. I am quite sincere about this.

But rail service as opposed to highway travel, as opposed to air travel—

Mr. SINCLAIR: Yes, I understand this. What are the various public commitments in regard to the movement of a person or goods per unit, one versus the other. Is that what you are saying?

Mr. ANDRAS: Yes. Does not the railway have to add into their costs, the amortization and everything else, of certain tremendous capital investments as related, say, to air lines. I am not talking about just moving equipment; I am talking about the basis of operation, your road beds, stations, all these sorts of things, compared to the public airports and so on. And, on the other hand, highway travel. What I am really getting at is if highway users had to pay the amortization costs of all the things that go into it then maybe we would be talking about the effective demand on highways too.

Mr. SINCLAIR: That could well be. That is why I would like to point out to you that on the toll road that I have to run over in Quebec I paid three cents a mile. The autoroute authority that owns it are trying to recover the capital costs over a very long period on the basis of three cents a mile for ordinary passenger cars; it is higher for other cars higher for trucks and higher for buses. There is no question about it in my mind, Mr. Andras, that there is subsidization by both the federal and provincial government to highway travel.

Mr. ANDRAS: How about air travel?

Mr. SINCLAIR: To air travel? Mr. McGregor, to quote somebody that is not associated with us, takes the position that the landing fees that he pays on the weight of the aircraft looks after the amortization of the airport. That is his position. Certainly he is not paying for his air aids; neither are we—and neither are Pan American or anybody else that is flying and using them. This is subsidization of air travel, in my opinion.

Mr. ANDRAS: Yes. And highway travel.

Mr. SINCLAIR: And air travel, and certainly in the navigational aids, and I, Ian Sinclair, think that there is in airports. I quoted you a difference of opinion; McGregor says that there is not but I, Ian Sinclair, think that there is. Nobody, I think, would disagree that there is subsidization through the navigational aids.

● (4.20 p.m.)

Mr. ANDRAS: I think my time is getting a little tight here. I just want to ask you one question. We had heard in this Transport Committee, particularly on our travels through western Canada, between 50 and 60 briefs, all of which were critical, and in conversation I think all of us have heard hundreds more of such comments. What weight do you give to this rather sizeable volume of critical public opinion, to say, the discontinuance of the "Dominion" and the fear of the loss of the "Canadian" and the diminution of passenger train service?

Mr. SINCLAIR: Mr. Andras, I hope you will not misunderstand me when I answer you this way: Starting in 1946 I have been back and forth across this country right up until 1960 almost every year preparing for proceedings in regard to air lines, in regard to freight rates, in regard to Royal Commissions, and I have found consistently, brief after brief that has been in a critical vein, so I am not surprised that you got a lot of critical briefs. That does not necessarily mean that all of the suggestions put forward or, indeed, any of them, are necessarily the proper ones. I am not surprised, Mr. Andras, and let me give you an example in the business that I think you are associated with. It would not take very much ability on my part to go across this country and have any given motor car attacked universally on safety features at the present time, whether it was justified or not. It would be very easy.

Mr. ANDRAS: Do you mean that in your opinion these briefs are not justified?

Mr. SINCLAIR: I try to analyze as best I can, from experience, and assisted by people who have spent their lives in the transportation business. We have tried to assess them and look at them in a strictly professional way; and where we cannot understand it, like on this reservation business, we have moved in with

specialists to see just what is going on. This is bothering us; we just do not understand what is going on. This is why we are doing what I am calling efficiency testing. We are doing it on both sides here. I do not know what is going on, because if they are right, if we have load factors like we are selling, and these people are right and they are specific that they are being turned down, then there is something very far wrong, but we will find out, Mr. Andras.

Mr. SHERMAN: Thank you, Mr. Chairman. Mr. Sinclair, some 20 years ago in Fulton, Missouri, Winston Churchill said that an iron curtain had descended upon Europe, although I must say that on the basis of this 52-page brief this morning I am tempted to suggest that a paper curtain has descended upon this question and this Committee and the issues that we are deliberating with respect to the past four and a half months. A paper curtain seems to have descended upon the question and it is extremely difficult to determine who is on the Lord's side and which is right and which is wrong. I think it would take us twelve months, sir, to do justice to this particular brief, to examine all the points that are raised in it, and I side with Mr. Olson in his suggestion that he has 48 questions that he would like to ask. I too would like to ask something in the nature of that number, but I will try to keep my questions short. I know the Chairman will keep me within the limited period.

First, on page 13 of your new brief, sir, where you are refuting the contention in the Manitoba brief that possibly 100 employees would have to be laid off by the C.P.R. if the figures, as Mr. Mauro read them, were correct. You say on page 13 that as a result of the changes undertaken as soon as the locomotives were released more freight trains were operated, thus employing more crews and new positions became available in other areas enabling the company to offer alternative employment to most of the employees whose work in passenger service was no longer required. Well, I may be wrong, Mr. Sinclair but I am under the distinct impression that at a number of points in the west we were advised by people appearing before the Committee that this did not in fact happen, and does not in fact happen in railroading, that it is not that simple, that you do not just shift from passenger to freight.

Mr. SINCLAIR: I remember a man that appeared before you and when he was asked, I believe it was by Mr. Fawcett, a question—it was either at Revelstoke or Vancouver—he said, oh, yes we have been hiring all the time; but after all they are freight instead of passenger. That is what I mean; they have lost their passenger job. But as you know, they do not sign on for a passenger job; they sign on and they are moved. For instance, Mr. Chairman, in the month of May Canadian Pacific handled over 7 billion gross ton miles; that is the all time record for the system. In the month of March it was 6.8 billion; in the month of October 6.5 billion or something over 6 million—we have not got the figure. This shows you what is happening here. There is no question about it that in March, for example, 1965, we operated 21,101 freight trains. In March, 1966, we operated 22,841 freight trains, and we have mileage limitation lifted on trainmen and in certain areas of the country we are getting the co-operation of our employees; some of them are foregoing their full holidays to assist in the movement of traffic. There is no question about it, Mr. Sherman, we are hiring and we are training them and, as a matter of fact we are even giving some consideration to having C.A.E. make a simulator for us to train enginemen.

Mr. SHERMAN: Well, sir, may I move on to page 15 of the brief, where you point out that in your view and the view of the CPR that so far as the parties to the contract of 1880 were concerned it could not fail to be obvious to them that in a contract effective for all time, the prudent course was to leave open and flexible the services that the company were to perform, and so on. I wonder, sir, how you relate that to Section 315 of the Railway Act. What do you read in Section 315 of the Railway Act?

Mr. SINCLAIR: Well, you see, when the contract was made it had appended to it and as a part of the contract what became the incorporation, and it is all part of the contract. And that was done by letters patent and was issued as letters patent and Canadian Pacific is incorporated by letters patent; it is not incorporated by statute and it is not incorporated by virtue of any general law. It is incorporated by letters patent issued under the Great Seal. There are not many companies like that; I know of one other. It is incorporated under the Great Seal of Canada as a part of its contract with what later became letters patent. That is a schedule to the contract and an integral part of the contract.

A provision in there: incorporate by reference to the Railway Act that was in existence at that time, and that Railway Act then becomes part of the incorporation of the company; and that is a changing document and it is the Railway Act, unless it is specifically overridden by specific provisions in the contract or in the act of incorporation, that governs the company and it does not affect this Section 315. So if Section 315 changes from time to time it is a part of the incorporation of Canadian Pacific.

I hope I have made myself clear. It is an unusual type of incorporation, but if you look at the Statute of 1881 you will find it consists of three documents: (a) the Act; (b) the contract which the government and the syndicate signed; (c) the schedule that is appended to that contract and incorporated in that contract, and (d) in that schedule incorporation by reference to the Railway Act as it then existed and as it changes from time to time, subject only to where it is inconsistent with specific provisions the specific provisions override. Section 315, therefore, or its predecessor, has been a part of the incorporation company and adequate and suitable service in light of all proper interests is what Parliament said was our obligation.

Mr. SHERMAN: Well, with respect to subsection (1) of Section 315, where the Act states, "that the company shall, according to its powers, furnish at the place of starting and at the junction of the railway with other railways, and at all stopping places, establish for such purpose adequate and suitable accommodation for the receiving and loading of all traffic offered for carriage upon the railway", would that section be necessary if those who drafted the act did not appreciate the fact that some aspects of railway operation might be money losing aspects? Nobody has to be encouraged to make money; legislation does not have to be drafted to encourage you to make money, but it does have to be drafted perhaps to encourage us to do some of the things that we should do to carry out an efficient business, even though we may lose a little on it.

Mr. SINCLAIR: Well, Mr. Sherman, as I said to you before, this has to be read; it is adequate and suitable. Adequate and suitable, and then if you go over to subsection (3) it is in the light of all proper interests and it has been

interpreted, time without number, either this section or its predecessor. For instance, if I come down with a package of budgies I mean here is some traffic, please carry them on the railway, that is not what it means, that is not adequate and suitable in the light of all proper interests. This is regulation based on—whether you agree with it or not—an economic concept of transportation. It may have its difficulties but that, basically, is what it is.

Mr. SHERMAN: Oh, I agree with it, on balance, but I just wonder whether there was not the nagging suspicion in the minds of those who drafted the legislation that this encouragement might be necessary, because there might be instances in areas in which profits were not always available.

Mr. SINCLAIR: Oh, there is no question about it. In the early days, in the days of Fisk and people like that, which are the predecessors of this type of generalized railway legislation, there was evidence of arbitrariness. However, that would be the tenor of the times when general railway acts were passed and boards of regulation were set up. As I said earlier, I do not think anyone can point to any time that Canadian Pacific had failed to carry out the directions of the Board or that we acted in an arbitrary manner; and if we did Parliament would act, and that is why we have it here; they were cautious in it.

Mr. SHERMAN: Now referring to pages 17 and 18 of the brief, particularly at the bottom of page 17 and at the top of page 18, those statements I will not quote because everybody has a brief in front of them, but the final sentence in the section that I am referring to says, with respect to the land grants made to CPR: obviously it: the railway could not have fulfilled this purpose—that is, in helping to settle the west—if the land in its possession had been unfit for settlement.

Well, I might just interject there; that that can read like a justification and a rationalization for the CPR's position. It is open to interpretation really whether the CPR had in mind its own interests or the interests of the west when it exercised its decision on these land grants that were offered. Certainly it could have turned those land grants down, but I would suggest that it is doubtful that it would have turned them down just because they did not lend themselves to development of the west. I would suggest that if they turned any down it would have been because they appeared unprofitable to the CPR.

Mr. SINCLAIR: Mr. Sherman, if you read back in history, or if you read back in any of these books that have gone into it, *Building the Canadian West* by Hedges is one, and there are a number that have made studies in great depths in this, you will immediately see that that fairly fit for settlement clause was necessary because what happened here was a partnership of opening up the west for settlement, and if you have not got something that can be used for land, that can be farmed, you cannot put people on it. As a matter of fact, as a matter of history, Mr. Sherman—and I think you might be a little interested in this—the last large movement of this land arose when we said “O.K. give them to us, we picked them in the Palliser triangle; we will take them in Alberta where they were not fit for settlement because of the drought conditions and that is how we got into the irrigation business around Calgary—and this is all written out in history. I think it was a very skilfully worked out document of a partnership for opening up the west, and it sure did open it up, Mr. Sherman.

Mr. SHERMAN: Well, sir, I know in that respect, yes. I have had the high sign but I would like to ask one more question arising out of your emphatic statement and pledge on page 27 in your brief, in which you say it should be strongly emphasized that Canadian Pacific has no intention of permitting a deterioration of the "Canadian". The policy of maintaining this train to a high standard will be continued.

Well in our western travels, sir, I think I would not be exaggerating when I say that we had testimony, at least we heard allegations from many parties to the effect that deterioration and downgrading of the "Canadian" has already set in; that it is frequently late, which is a practice that discourages patronage; that it is extremely difficult if not well nigh impossible, to obtain reservations when you want them, which certainly discourages patronage. There was no reflection on the type of service or the conduct of the personnel aboard the train, and I would like to emphasize that point. But in terms of the service offered and the time that the train comes through various western communities, the length and the brevity of the stopovers, and the fact that it is 20 below and at two o'clock in the morning there is nobody at the station to help a lady on with her bags, and that sort of thing. I call that discouragement and downgrading of the service.

Mr. SINCLAIR: Well, Mr. Sherman, let us take the question of on time arrival. There is no question about it; I read that we were putting the "Canadian" in the hold to let freight trains go by, and this they said was downgrading, instead of letting the "Canadian" hold the high rails. We have done this, because that is the fastest way to move it over the tracks where we have some problems. There is no question about that. We are not downgrading that; that is just operating in the light of the physical facilities we have according to good, proper transportation practices. As to the lateness of it, we have had just a very tough time over the last six months. We are constantly trying to improve our "on time" performance, and so is everybody on this. But let me give you an example; all last week we were detouring 15 and 20 trains a day between Franz and Coniston on the Canadian National Railways because of a very unfortunate affair they had up in the territory where Mr. Fawcett comes from.

We were staffing our own trains on account of that. We were handling not only all their passenger trains between Franz and Coniston but we were also handling their simple and other freight. And there are times when we go over their lines. They had a very unfortunate thing; a bridge went out on them in a fire. Now just as they got their breath from that they had another unfortunate thing when they had some cars go into a snow shed out in the mountains. Unfortunately, when you were out there it seemed to be our turn. I do not know, maybe we do not live right. You see, the funny part is, if you had gone west with us we would have had you there just as we were clicking wonderfully. However, we ran into a very, very substantial washout and it took us days to get it in; then when we did get it in it was soft track and we had a derailment on it—then we had to apply slow orders to it, and then, after we get that done—we started to have some mechanical problems. Well, in the air lines, you go out and you lose a blade on a fan and it goes through the motor; it does not happen very often; but you have to come back on three motors and you sit down. You have to change a motor; you are stuck for three to four hours; you have missed all your connections and, if they do not happen to have

something that will fix what has gone wrong, you may have lost a day. This is happening. Buses have their troubles too. I worry about the on-track performance of the "Canadian", certainly I do; so does Mr. Gossage and so does Mr. Warren. We are giving it the best we can, Mr. Chairman; we do not want to run that train late. We are very selfish about running it on time because when we set it up in the time card and run it on time that assists us in all our needs. That is good transportation and that is the cheapest way to run it.

Mr. Rock: Mr. Sinclair, first of all, even if the Chairman objects, I would like to congratulate you on your promotion.

Mr. SINCLAIR: Thank you very much. That is permissible because you are a Montrealer like myself, only I am a transplanted Westerner.

Mr. Rock: Now in your brief, on page 15 and on you have made some important quotes here and I will just read parts of the quotes. For instances, with respect to the contract of 1880, in the last paragraph you say "In other words Canada—

Mr. SINCLAIR: I am sorry, Mr. Rock, you have lost me.

Mr. Rock: Oh, yes. On page 15, with respect to the contract of 1880, the last paragraph reads: "In other words, Canada was being assured of a transportation service by rail that would be adaptable to change as the needs of the country altered. The obligation upon the company to change with the times, to adopt new methods and to eliminate what had ceased to be efficient is basic". You continue after and you get into some important quotations on page 50 of Mr. Daniel P. Loomis, president of the Association of American Railroads, and on the bottom the quotation: "We must secure for all our travellers and shippers the full advantages of modern science and technology". And you continue on in that respect as if you believe in this very much.

Mr. SINCLAIR: I do.

Mr. Rock: Also, on page 51, there are many other quotes here from the MacPherson Royal Commission with respect to a speech which the Minister of Transport made in Winnipeg, such as "To do so Canada must take advantage of advances in technology, in transport and the most modern equipment". And it continues. Do you sincerely believe that your company has followed this?

Mr. SINCLAIR: I think so, and in many areas led us.

Mr. Rock: Yes. You have in the past changed to diesels when the time was right to do so. You have also one of the finest trains in the world, which is the "Canadian", the most modern of the time. I sincerely believe that you have done that up to that time. What I would like to know, Mr. Sinclair, is what have you done since you have purchased these diesels and since you have inaugurated the service of the "Canadian". From that time on what have you done with the other science and technical information that has been available with regard to the speed of trains? I will be more specific. I want to refer to the new technical changes that the United Aircraft are proposing and the changes that the CNR are about to make on the Montreal-Toronto route because you have made a certain statement, Mr. Sinclair, that they do about 100 miles an hour when your train from Ottawa to Montreal does 90 miles an hour. Yet, according to the newspaper clipping that I have received the average speed will be 120 and up to 160.

● (4.45 p.m.)

Mr. SINCLAIR: They were very careful, Mr. Rock. They said "at the beginning up to 100 miles an hour".

Mr. Rock: Well some reporters say it that way and other reporters put it to 120, average up to 160.

Mr. SINCLAIR: Should we agree with the *Gazette* as an authority? I have the *Gazette* of May 18. I think they were very very careful to say, when they started they were going to go up to 100 miles an hour. This makes sense. After all, they are getting a new piece of equipment and they are not going to run it wide open. They are saying this because they have to see how this is going to operate. This is an unusual type of operation. There is no question but that this new United Aircraft train will operate on existing track up to 100 miles an hour without problems. We can run at 100 miles an hour; we only go to 90 but we can go 100 miles an hour on our track with the kind of diesels we have. Up to 160 becomes quite different, quite different. As Mr. Crump has told you and as I said when I was here before, both of us were over on the Chicago line and we were on the test trains there; we know about this United Aircraft operation. It is an interesting technological advance. It is being studied in depth under government money in the United States. The Canadian National have stepped ahead of even what they are doing there and said, "O.K. we are going to rent the equipment with the purchase of lease option arrangement or a purchase option arrangement". And they said, "As time goes on we will be able to increase the speed." This, I am sure, they will be able to do.

However, to go 160 miles an hour they must have a secure right-of-way. This means, number one, no level crossings; you do not have a secure right-of-way if you have any level crossings. This means you have highway separations every time you want to cross the track. That is very expensive. In your constituency, as you know, there are a few separations that cost quite a bit of money.

The next thing that you have to do is to extend out, even though it is a fast stopping train, your signal service. That is another thing you have to do. And your line and surface certainly has to be first class.

Mr. Rock: Yes, Mr. Sinclair, I have always understood that.

Mr. SINCLAIR: As Mr. Gossage points out to me, you have to consider curvature. For instance, we could not operate over our track between Montreal and Toronto as fast as the Canadian National could. They have the preferred location; they were there first and they got the preferred location. They do not have the same curvature and they have not the same grades. Even with the curvature they have, and it is very small, I think you will find them making some adjustments to their curvature.

Mr. Rock: Yes, Mr. Sinclair. Do you feel that they will have to go through the same type of change with regard to trackage as they did in Japan, or can they use the same track age with just a little change and possibly a change of signals and, of course, in the right-of-way?

Mr. SINCLAIR: That is not a little change, Mr. Rock; that is a big change.

Mr. Rock: But I understood a few years back, when I was asking similar questions—not with regard to United Aircraft speedier trains—I believe that the

president of the CNR had mentioned it would run to a billion dollars to change—the whole trackage completely from Toronto to Montreal. But it seems that with the method used by United Aircraft you do not have to do that.

Mr. SINCLAIR: I think they have made what looks like on a spec. a significant advance. Mr. Rock, I am not an engineer but from what I saw of the Takata line I just marvelled at the engineering advances that had been made by the Japanese. I know what it cost them; I know that if they are going to run at 160 miles an hour they are going to spend many many millions of dollars between Montreal and Toronto or I am not getting on the train—and I am not a frightened boy.

Mr. ROCK: Yes, I know, Mr. Sinclair, but I do not want to give you the impression that I believe that that train will do an average of 160.

Mr. SINCLAIR: Let us say, 130.

Mr. ROCK: It may do 100, 120 at times in certain places and on a good straight road with no interruptions and no crossings—in other words, the grade separations would be made. It may reach 150 or 160 but I do not think any train will always hold that speed right through. You have to slow down a little on the curvatures, and so on.

Mr. SINCLAIR: As I say, Mr. Rock, from what I have read, and I have read the technical stuff, I have talked to some of the engineers, I think they have something that looks interesting.

Mr. ROCK: What I want to know, sir, are you very interested in this for the future of your company. This is what I want to know.

Mr. SINCLAIR: I am very happy, Mr. Rock, that the United States government, even with the massive New York Central and Pennsylvania, would not take it off. The United States government is paying for it there. We are going to watch it with a great deal of care, and I may say that I am also happy that Canadian National management feel that they have an opportunity, an economic opportunity, to implement that. I am going to watch that very carefully, and if it all works out—we will certainly watch it and our engineers will watch it—then we will be quite happy to stand in line and put one on between Montreal and Quebec and Montreal and Ottawa because we think that maybe there are two areas where, if the costs are on the specs, and we do not think they are going to be, you know.

Mr. ROCK: In other words, then, do you intend to stay in the passenger service line if, technically speaking, it is feasible and it is able to compete with air travel and things like that, sir?

Mr. SINCLAIR: Certainly. There is nothing I like better than competing against somebody else; I just love it.

Mr. ROCK: That is a good broad statement. It is a very important thing.

Mr. SINCLAIR: Well, I do; I just love it.

Mr. ROCK: At the bottom of page 30 and on you mention this faresaver plan, and that before 1963 in many cases the fares were lower than with the raise that was just made lately compared to that time, because in 1963 you slashed the prices down.

Mr. SINCLAIR: Cut in half in some cases, 35, 40, 37—

Mr. ROCK: Yes, you slashed them between 35 and 50 per cent. Now I have a letter here of which Mr. Crump and Mr. Warren received a copy, and what I would like to know is—what was the freight before the faresaver plan?

Mr. SINCLAIR: Well, I do not have that right at hand. Are you referring to the letter from Mr. White?

Mr. ROCK: Yes, from Mr. Desmond P. White.

Mr. SINCLAIR: Well I do not have the fares prior to faresaver; I will say this, I have had it checked out. After we got a copy of this letter we had this matter checked out. The fares that we show on that letter which were quoted in February were tentative subject to later confirmation. The report I have is that this man who gave us his name is not listed in the telephone directory and we were unable to call him back. The rates he puts in this letter are correct except for the bedroom, one adult and one child; he gave only the rate for an adult without a child, but the rates for May 31, 1966, are in every respect correct. The increase of \$166, if you put it on a comparable basis and put in the child, would make about \$30 difference; let us say a difference of \$135 or \$136. He is right about this. However, he is wrong about the idea that if he had picked up the tickets he would not have had to pay the extra fare. We have had, for instance, increases in bus fares; I used to ride those buses and the motorman or the driver used to say, "Put another nickel in", you know? We had that in Montreal just a little while ago. The same thing happened here; you take a tentative basis, even if you pick it up, if the rates go up you have to pay the additional cost, and he seems to be quite surprised at the percentage increases. However, he has got to realize that within the limits that we have, we have maximum rates fixed and can adjust these prices up to the maximum.

With regard to 1966 compared to the prior to 1963 basis, and he is moving from Montreal to Calgary, my guess would be that the present rates for the transportation factor are about equal, but in so far as the first factor—he has drawing rooms and compartments—that they have increased materially and, in addition, in 1966 the meal cost would be included and prior to 1963 it would not.

Mr. ROCK: There are many many factors.

Mr. SINCLAIR: Well, you see, I do not know who Mr. Desmond P. White is, but he has a drawing room—of course, you heard what I had to say—but the transportation factor in the rate I would think in 1966, without checking, is about the same but the berth costs have moved up very substantially.

Mr. ROCK: Mr. Chairman, I have finished questioning, but I have asked questions about this letter. Could I have it tabled also?

Mr. SINCLAIR: This is a letter, Mr. Chairman, that was addressed to Mr. Rock and copies sent to our chairman.

The CHAIRMAN: All right, we will table that, Mr. Rock. We will put it in as an appendix to the minutes of our proceedings and evidence today.

Mr. PASCOE: Mr. Chairman, I have two or three questions that follow from earlier questions. On page 33, Mr. Sinclair referred to the consist of the

"Dominion" in 1955; he referred to it as new stainless steel equipment, and he enumerates them, the Park dome car, the Chateau cars and the Skyline dome cars. Are those in cold storage too?

Mr. SINCLAIR: No; what we did with those after we took them off there in 1960, was to assign some of them to trains 41 and 42 between Montreal and Saint John; we assigned some of them to trains 233 and 235 between Montreal and Ottawa, and we assigned some of them to the service between Montreal and Quebec. They have all been moved out.

Mr. PASCOE: They are all in use now?

Mr. SINCLAIR: Oh, yes, Mr. Pascoe.

Mr. PASCOE: What cars are in storage, just the old cars?

Mr. SINCLAIR: Well these were the Tuscan Reds that we were using in the summer time for the last few years. Yes, they were the Tuscan Reds. You call them very very old. As I said before, you know, I think one of the nicest rides that I ever had was in a 6B. Lots of people get a little bit upset against the jet. It is a pretty good riding car. They are not modern.

Mr. PASCOE: In compliance with the Board order to hold the "Dominion" equipment in case it was needed next year, would this equipment be part of that that you should be holding?

Mr. SINCLAIR: This here?

Mr. PASCOE: Yes, the new—

Mr. SINCLAIR: Oh, no; they had gone out of the consist of the "Dominion" six years before. The kind that we were holding were the Tuscan Reds that we had been using in 1965, and there were no stainless steels in that.

Mr. PASCOE: Reference was made to the purchase of 32 new diesels. Would those diesels be interchangeable both for passenger and for freight?

Mr. SINCLAIR: Now, they can pull a freight train but they develop 3,000 horsepower per unit, and our passenger units are geared to do 90 miles an hour. They are very much lower than that; I think it is 65 and it may be that they are a few miles over that. They have a six-wheel truck under them; they are a very heavy freight locomotive. They cost about \$350,000 each.

Mr. PASCOE: They are completely meant for use for freight?

Mr. SINCLAIR: They are specifically designated in so far as we are concerned; as we get them we will move them into freight service operating between Calgary right through to Vancouver. That does not say they could not pull a passenger train; they could not pull it well and it would be a waste of very heavy power.

Mr. PASCOE: Mention was made of land grants. Now when you said an odd number of sections were granted did you get the oil and mineral rights of those grants?

Mr. SINCLAIR: We did, just the same as the homesteader did.

Mr. PASCOE: When you sold them did you sell the oil and mineral rights?

Mr. SINCLAIR: In some of them we did and in some of them we did not, just as the homesteader did.

Mr. PASCOE: Have you any idea what you have left that you would have oil rights on? What would be the proportion?

Mr. SINCLAIR: I would say substantially less than half. You see, part of our oil rights now are ones that we have bought from the government, when they are put up for bids you; we get leases or reservations. Some of them we have bought back from people that we had sold them to. At first we started to reserve coal and valuable stone; then we reserved coal, petroleum and valuable stone; then we reserved all mines and minerals, and on all mines and mineral reservations considerably less than half.

In regard to that I would think that our practice and our percentages, Mr. Pascoe, are not too different to the homestead lands; they were put together, those homestead lands, and bought up by people like Mr. Harvey in Alberta and various people in Saskatchewan; they bought them up from the farmers.

Mr. PASCOE: You still have considerable amount of land, oil and mineral rights in Alberta and Saskatchewan.

Mr. SINCLAIR: Oh, yes, within the last little while we bought some more from the government of Saskatchewan, just the same as any oil or gas company.

Mr. PASCOE: With regard to the "Dominion", on page 34 you refer to the necessity for removing the head-end traffic. Could you explain the necessity?

Mr. SINCLAIR: Well, you see, Mr. Pascoe, as technology comes forward you cannot hold a business against your competitor if you keep operating the way you always were. We have gone into putting these on fast freights; they move specifically from terminals. Mr. Gossage right here beside me, before he took on his present duties, was the fellow that was directly responsible for our merchandise services and our head-end traffic and I will ask you, Mr. Gossage, if I may, to answer Mr. Pascoe in that regard.

Mr. S. M. GOSSAGE (*Canadian Pacific Railway*): Well, Mr. Pascoe, I would say that we were able to consolidate the express into carload lots for specific destinations more effectively by operating them on fast freights that were timed specifically to meet the needs of that service. The difficulty of having this handled on a passenger train was that you were handling very often under not very suitable conditions on station platforms a lot of freight at considerable expense and with considerable delay both to the train and to the express merchandise. By handling it with fast freights, with cars taken to the working terminal, such as we had at Regina—we had a very good one at Regina—the car was so placed that you could work right across the platform and into the delivery wagon much more expeditiously and effectively than if it has to be taken off at the station and then either brought out in facilities at the station, which were old and generally inadequate or taken over to the new terminals and resorted there. Those were the reasons that led to the concentration of the baggage traffic on to fast freight trains; also that enabled us by a combination of the baggage traffic and of the high class freight business to establish freight schedules that were highly competitive and it improved the service both to our freight shippers as well as to our package shippers.

Mr. PASCOE: Does this means that revenue was taken from the "Dominion" and transferred to fast freight?

Mr. GOSSAGE: That is correct, yes.

Mr. PASCOE: If there was some way to put that revenue back on the "Dominion" it would add to the revenue greatly.

Mr. GOSSAGE: Yes, but you would also have to put the expenses back. One of the things is that in the loading techniques you use in loading for fast freights, when you load them into a freight type car, you can load those cars much more heavily than you can the previous passenger type cars which, due to the requirements of passenger service, cannot be loaded as heavily. It is expensive operating those cars, and particularly the expense in repairing them is very much higher. So that while you could put the revenue back on to the "Dominion" you would have a lot of expense back.

Mr. PASCOE: Well was that move taken on your own initiative or were there complaints about the service?

Mr. GOSSAGE: Oh, no, it was taken on our own initiative to try to make our services more competitive.

Mr. PASCOE: Just one more question, and this is just to answer some questions I have in regard to pass privileges; you pretty well explained pass privileges. Some of the older railway men tell me, and I did not really believe it, that the C.P.R. in their income tax return charges so much for the privilege of pass service.

Mr. SINCLAIR: Well, Mr. Pascoe, I spent one whole day arguing once in a conciliation case that some credit should be given to it. Mr. Frank Hall was my opponent and he argued the other way and he was successful. I certainly see nothing at all in any income tax, and I have looked at Canadian Pacific income tax returns for quite a few years, Mr. Pascoe.

We got into an awful hassle about commuter cases. People were saying, "Why are you giving your employees a streetcar ticket to work and making other commuters carry them"? We said we are not giving them; we are charging 50 per cent. They said, "O.K., why are you making other people, other commuters, carry that 50 per cent that you are giving to your employees?" The Board of Transport Commissioners, therefore, in the commuter case said, "we will make an adjustment in the figures by putting in an additional value for that 50 per cent you give away and we are going to increase your revenue by that 50 per cent, even though you do not get it". Now that is the only incident of any kind of document and I sure do not think that is helping us. You just think about that.

Mr. ALLMAND: Mr. Sinclair, this morning you said that passenger service in Britain, Germany and France was suffering from very large losses.

Mr. SINCLAIR: I said railways. I was talking about the deficits on the state owned railways in these countries.

Mr. ALLMAND: You were referring both to freight and passenger service?

Mr. SINCLAIR: Yes, and passenger too. For instance I was over in Switzerland once, Mr. Allmand, and I was talking to the head of the Swiss railways. I always thought they had three classes on these railways and they only had two classes. They did not increase their fares but they took out the second class and put all the people in the third class coaches, and they were jammed in there. I asked him if they were making any money and he said no, because the rates

were too low; so I calculated what the rates were for a standee on the Swiss railway and took the Swiss francs back into Canadian dollars and I found that for standing room only it was four cents a passenger mile, and still he lost some money.

Mr. ALLMAND: It would seem that according to your criteria many of these trains would be discontinued; this seems to indicate that there must be other criteria which are being used in Britain, Germany and France which are different than yours but which justify the running of trains and these criteria, it would seem, are based on public need and national interest.

Mr. SINCLAIR: Mr. Allmand, if you have ever watched the British press, and if you have ever seen the number of trains they had up for discontinuance in Britain you would be quite shocked. The papers were full of it; they had "Save the Trains" and they had boys out taking the last number; they even had them climbing over right-of-way fences. Hundreds and hundreds of trains have come off.

Mr. ALLMAND: Yes, but hundreds and hundreds are being continued, and in France too.

Mr. SINCLAIR: Oh, well, let us face the little bit of difference in situations.

Mr. ALLMAND: The point I was getting at, Mr. Sinclair, was that they have used criteria in continuing to run trains which are different than the criteria which you have put forward for discontinuing the "Dominion".

Mr. SINCLAIR: No, I do not think so.

Mr. ALLMAND: It appears to me that they have.

Mr. SINCLAIR: I would suggest no, that their adjustments are going on. They may not be as far advanced as we are. How should I put this without being misunderstood; they have had tremendous political pressures in maintaining certain services that were uneconomically necessary.

Mr. ALLMAND: I would suggest to you that when they judge the economic value of trains—and I lived in Europe for a year or so; I took the train quite often—they consider economic gains that go beyond what can be seen on the balance sheet of running certain trains; in other words, running a train or not running a train can have economic effects away beyond the profit or the revenue that you will bring on a particular train. I feel, from what I can understand, that although they are running them at losses such as you have said they are considering other things in continuing the trains, even though they are taking some off.

● (5.15 p.m.)

Mr. SINCLAIR: Well, they are taking a great deal off but in addition, you see, they have quite a different problem. Let us take Germany; if you want to go from Basle to Frankfurt, for instance, or if you want to go from Dusseldorf to Frankfurt, they have a situation there that is quite different to anything we have in this country. You say "other economic advantages"; if they can demonstrate them to offset the situation—and I have not seen this done and I have read quite a bit about it—then they meet this problem of what I call misallocation of resources. As I say, our approach here is not what some people like to say a balance sheet approach; it is an economic approach based on the proper use of scarce resources. It is a straight economic approach. I have talked

to some people from the British railways and, as a matter of fact, we are giving them certain assistance, if I may put it that way, in some of the techniques we have developed. We learn from them; we are in touch with the people in France; we know the people in Germany; we know the people in Holland. We are in touch with all of them, and I have never seen any calculation such as you are talking about. Armand, who is head of the French Atomic Commission, and who is the head of the French state railways, used to wring his hands about this situation between Marseilles and Paris. He was running trains there that were, he said, ridiculous; but he could not get them off.

Mr. ALLMAND: Well, that is my point. Do you know why he could not get them off, because probably the government felt there was a public need beyond what he considered.

Mr. SINCLAIR: No, that is not right. If you look at it you will find out, because there was a labour situation involved in there and the political situation was such that they did not want to face up to it.

Mr. ALLMAND: Are you saying the criteria used by the national railroads in these European countries for continuing or not continuing a service are exactly the same as the CPR's?

Mr. SINCLAIR: I am saying that the people that I have spoken to in some of these railways are attempting to apply the same criteria. As you will see, here is national railroad which, in their report, are being careful with their use of language, but are applying the same criteria, and I am holding up the Canadian National report.

I think if you take a look at the last report of the British Railway Commission, the Transport Commission, you will find that they are talking about the problems they have and the situations in which they are involved.

Mr. ALLMAND: I would not want you to quote a few sentences out of a long report.

Mr. SINCLAIR: Well, all I can say is that the very fact that we happen to have it here, you know, indicates that we do try to keep up with other areas.

Mr. ALLMAND: Well I am not an expert by any means, but from what I have read in preparing for these meetings it seems to me that some of these national railways do not always use the same criteria, the definition of effective demand that you use, and they often will try to run trains if it is in the public need and national interest, and subsidize them.

Mr. SINCLAIR: Well, I am not saying, Mr. Allmand, that they do not do that; of course they do, and this is what the criteria of the MacPherson Commission said and this is the criteria, as I read it, of the Minister of Transport. If it can be demonstrated that it is in the national interest to operate something at a loss then the difference should become a charge against the public treasury, and I am not disagreeing with that. All I am saying is to be careful of what you look at in the national interest because there is a tendency not to change. There is a resistance against change. I think I said something about this when I was here before. There is a resistance against change.

An Hon. MEMBER: I expect the witness knows about that.

The CHAIRMAN: Well, we do not want to get into that; I think we will get off that subject.

Mr. SINCLAIR: What I am trying to say to you is that I think that all people with this problem will recognize that the national interest, if it transcends an economic situation, then becomes a matter that is a charge against the public treasury. But you should not make charges against the public treasury just because it is a public treasury.

Mr. ALLMAND: No, I agree.

Mr. SINCLAIR: This is where you have to be careful.

Mr. ALLMAND: You came out very strongly at the end of your brief saying that the CPR was so much against nationalization. I must say that you criticized the National Farmers' Union for quoting people out of context, yet you quoted a few statements from former chairmen of the British Railways Board, that I thought were quite a bit out of context, saying that people had seen that nationalization does not work in England, yet they have BOAC and some very worth while national air lines and railways, I would say.

Mr. SINCLAIR: I was in a hearing, Mr. Allmand, about BOAC just two and a half years ago, when they had a massive change in management and they were tremendously concerned about the losses of BOAC, and you say that BOAC has been a very successful—

Mr. ALLMAND: Nationally, in the national interest.

Mr. SINCLAIR: Well, now, Mr. Allmand, in what national interest? I know, for instance, that in regard to operations out of London to the west coast of South America, it is now being operated by private enterprise. I also know that in other places viable air line operations are operating in Britain. They have a mixed economy.

Mr. ALLMAND: I agree they have.

Mr. SINCLAIR: They have a mixed economy. However, it was not I who said it; it was Lord Beeching who said it, and you said I took him out of context—

Mr. ALLMAND: You have quoted only two sentences that he said.

Mr. SINCLAIR: Well, that is all he was talking about on this point. It was an answer to a specific question. He was a man who was put in there to put the British railways on their feet, and you know his background.

Mr. ALLMAND: But I can quote you many other people who are saying the opposite thing right now too. I think it was misleading.

Mr. SINCLAIR: You do? Well, I am sorry, I did not mean it to be misleading. I thank you very much.

If that is misleading, may I give you this from the annual report and accounts for the British Railway Board of 1964—this is the presentation to parliament pursuant to Section 24(3) and 27(8) of the Transport Act of 1962. It is an official document: During 1964 further progress was made toward the implementation of the reshaping report and 17 proposals for the withdrawal of passenger train services were added to appendix (2) of the report under the advance notice procedure required by Section 54 of the Transport Act of 1962.

Ninety-five proposals to withdraw service were published during the year under Section 56(7) of the Act, and in the same period the Minister's decision was given on 138 cases. In 123 of these latter cases the Board's proposals were approved by the Minister and in 15 cases the proposals were refused or consent given in part only. At the end of the year the Minister's decision was awaited on 55 further cases on which reports have been submitted by the area transport users committee, and 66 cases were still at the stage of awaiting committee hearings and Commissioner's report. That was the situation. I am sorry, but it was not me that asked Lord Beeching the question, Mr. Allmand; it was a reporter, and he, in his very adroit way, answered them and I thought he did it very succinctly, and I happen to know that that is his view.

Mr. BELL (*Saint John-Albert*): Mr. Sinclair, in an effort to pinpoint our responsibilities in this Committee at the moment, I am going to ask you a question that is on many minds. I realize this may be easier for me to do it because I am from the east. Reference has been made, direct and indirect, to the fact that it is now too late to put the "Dominion" on this summer. In House of Commons phraseology, if this is so when did it become too late, in your opinion?

Mr. SINCLAIR: Well, the least time should be some months; a minimum, I would say, even if you were not going to run what I might call a passenger acceptable service, but you were going to run a safe service and you were going to get your advance information out to the travel agents and all this kind of stuff, and to do some slot planning for staff, it should be a minimum of two months, an absolute minimum.

Mr. BELL (*Saint John-Albert*): Two months from the beginning of the period.

Mr. SINCLAIR: Yes.

Mr. BELL (*Saint John-Albert*): Well, what would the period be now?

Mr. SINCLAIR: If you are going to upgrade your stuff to make it passenger acceptable—I have just given you a safe operation and giving you a chance to advise everybody and build something into it—I would say you should have four or five months, at least.

Mr. BELL (*Saint John-Albert*): You are talking about March and April then, for example.

Mr. SINCLAIR: Yes, if you are going to really do it, because you see we did not do a shopping program and if we had been going to do it we should have done a shopping program in that winter.

For instance, let us say we had a national emergency and there were no airplanes and no roads or anything else, and we had to go and put the trains on the road after they had been in there—and we did not care anything about crew; you see, after all, one of the things you have to do in instituting the service, because all our stuff is bunched, is to start getting equipment at Vancouver and Winnipeg, and we have to start working from both ends or else we are going to finish up with all the trains in one place. So you have to consider your spread. Now your spread is four or five days, to start with. But let us say we have a national emergency and you did not care what the equipment was like and all you had to do was go at it and put 150 cars in; you have to check out your

running gear and your draft gear; you have to put your batteries in, and you pull people out from wherever you can and you just threw it on, and you did not care about anything else. You did not care about who was on it; you were just going to go. You could do that in two weeks, but that is not a passenger service; that is just taking cars out and you do not care whether they are really clean. You are safe and that is the only thing you are. You do not care anything about the spread; you do not care about anything or how you disrupt other services, you just pull. That, I would say, is a two to three week job.

Mr. BELL (*Saint John-Albert*): In other words, by the time we had even begun to go out west on our trip on May 6 it was too late to responsibly become involved in a recommendation for summer service.

Mr. SINCLAIR: In my view, on account of the physical situation and in light of the Board's judgment and everything else, yes—and responsible in that sense is that you were not going to be left in the position where the cards were very much weighted against you in looking at the results.

You see any institution of this service in the summer of 1966, Mr. Bell, is bound to be very very bad. The figures are going to be very bad, by the very nature of things. There is no advance selling; there is no advance knowledge. You set up your consist; you are going to do the work on them under forced draft; you are going to get complaints because you are doing it under forced draft; you are going to get extra costs by pulling people out of normal work; you are going to get into overtime costs; you are going to get into all these kinds of things. You have dead miles against you; you have not been able to work it in reasonably. You are left in a position, if I may say so, of having the figures just weighted tremendously because of physical factors.

Mr. BELL (*Saint John-Albert*): It may be better if we left this matter in the hands of the cabinet. But to change the subject, Mr. Chairman, may I ask Mr. Sinclair if he considers that any of the moneys such as rebates or horizontal rate increases and the like have any attachment to passenger subsidy in any way? In other words, do you consider that you are receiving money now, directly or indirectly, that is for the subsidization of railway passenger service?

Mr. SINCLAIR: I certainly do not, Mr. Bell, because I will tell you why. Of the two subventions we are receiving, one is what I call the rollback subsidy, and that is mostly between the two railways and then the other railways, and that resulted in a rollback of the freight rates that were authorized by the Board that were in effect in 1958, and they were rollbacks from 18 per cent back to 9 or 10 per cent, as I recollect it. Now that takes care of that; that was a rollback and the rates are in there and there is a credit off them for this money to everybody that ships something.

The second subvention is the dollars that were given and described as in relation to the recommendations of the MacPherson Royal Commission; that was effective in 1961, and it is very low in comparison to the costs that we have had in one segment of our costs alone, and I am talking about freight costs.

We were unable, because our normal class and commodity freight rates were frozen—not our competitive rates, not our agreed charges, but our normal class and commodity rates, so that we were unable to adjust our prices to take care of some of these costs, and when you take a look at our earnings the

carriage of passengers, let us say, 25 million, 35 million, as against say 450 million, you can see the leverage of these cost situations in regard to these moneys.

Now the third subvention was directly referable to the settlement that was made with our unions in 1964, and we had the first payment on that—we received it the other day, and that matter is still under discussion between the railways and the responsible minister to the government.

So my answer to you is that because of the reasons I have outlined we are not receiving a subvention in respect of passenger service.

Mr. BELL (*Saint John-Albert*): I have one question, Mr. Sinclair, on this misallocation of resources. When this Committee was out west most of us felt that certain groups of people want railway passenger service for certain areas out west during certain times of the year. Now you, amongst other things, contend that this would be a misallocation of resources, strictly in the case of a private company, to provide this where there is not this effective demand and the like. I am asking you a straightforward question as a taxpayer, like I am, where does this put the CNR in so far as their efforts now in supplying passenger service in this way; surely they are almost guilty of the worst misappropriation of resources in the history of human behaviour. In other words, if you are right they certainly must be wrong.

Mr. SINCLAIR: Well, I will say this, Mr. Bell. Let us say the loss has been reduced from the \$50 million that they proved, after even the adjustments that were made, and they were down to a bare bones basis in the Royal Commission—that \$50 million had nothing in it, like the cost of money or anything like that; that is the bare bones basis. Let us say it is down now to \$40 million. I do not know where it is, but let us say it is; I say that a \$40 million deficit that is going on year after year, and that is a short fall, is something that no country can afford to keep up. Now the Canadian National Railways said, “look, we have decided to enter upon the great experiment”. I am going to paraphrase: We are hoping to build up a certain level of traffic that we hope can be of such a level that it can be made viable. On the rates that are now being charged to get to that break even point, with a consist of sleeping cars that is in a normal transcontinental train, you have to have seats on the road. Now what does that mean? That must mean that they are going to build up to a certain level; they are going to try to look at the demand factor to see how elastic it is; they are going to start to do this, and then necessarily they have to start looking at the cost factor to see how far they can build them in balance. I do not know. I have not talked to the CNR; I am not privy to their inner thinking, but I can follow this kind of reasoning, if you have an awful lot of money. However, we tried this kind of an approach; we came to a conclusion that you could not do it. In our own way we are following some of this thinking and this is why I am saying that I think the “Canadian” can be made a viable passenger train service, but it is going to take adjustment; it is going to take different things.

When they get to Toronto and Montreal they have a different proposition; they have a different proposition altogether and that is a different thing. But I am talking transcontinental. They may have some magic that I do not know, but we are sure watching it. And if they have that magic—you know there are an awful lot of us who are in this business that are watching it awfully carefully too—we like magic and we will pick it up, if we can.

Mr. SALTSMAN: I presume the Canadian Pacific has been in the passenger business since the agreement of 1880. I would like to know how many of those years, in a general sort of way, that you have sustained losses on passenger service.

Mr. SINCLAIR: I believe it was Mr. Lewis that asked me for certain data in that connection when I was here before and I filed it with the records. Generally speaking I would say that we were meeting more than our variable costs until in the twenties and during the war, and immediately thereafter.

Mr. SALTSMAN: Were you keeping a different system of assessing your variable costs at that time? You were not keeping regression analysis?

Mr. SINCLAIR: We were not keeping that, Mr. Saltsman, but what we were doing was using what I would call a more arbitrary system and, as a result, more costs were being applied than are being applied now because we did not have the techniques that enabled us to do it. You could rework them; we have not got the basic data, but if you could rework them knowing how they were done you would reduce the expenses and increase the profits in passenger rather than the alternative, in the war years.

Mr. SALTSMAN: I have been very interested in the questions that have been asked regarding criteria and the statements of yourself and the former president regarding your continuance of the "Canadian". It is a little indefinite, the statement as it stands now; it is an indication of your intention for years and years. But in the light of the criterion that you have established of resource allocation, does this mean that if the time ever arrives that you feel that the "Canadian" does not meet your criteria of proper resource allocation that you would be prepared to drop it and get out of passenger service completely?

Mr. SINCLAIR: Well I think that that would involve me in this decision. I then would have to take a look at the situation where it is going and where it is serving and say, "is this required; is this required for sociological reasons; is it required for those kinds of reasons." I would then take the position that if it was required in the national interest that it then should become a charge on the national treasury, and that would be my approach. I would then have to accept it in the light of that at the time, and under those circumstances and following the criteria that I agree with in the principles, as I have set them out here in the MacPherson Report, then what I would likely do, if you are asking me what I would do—I cannot say what somebody else would do some years away down the road—but what I would do is come to Ottawa and I would see the Minister of Transport; I would lay what facts I had before him, and say this is the situation as I see it, and I think the government should take some action. If he disagreed with me then there is only one thing I could do, and that would be to make an application and bring the thing out in public through the regulatory authorities, where I would argue that there should be a meeting of the sociological needs that I thought I had proved by virtue of a subvention.

Mr. SALTSMAN: Well this is the first time I have heard you argue in regard to sociological needs. During the course of this hearing you have always argued on the problem of economics. I would like to ask you your opinion as to whether a bare bones, if you put it that way, passenger service is not an integral part of your original agreement of 1880. In other words, do you feel that the agreement that you signed for the efficient—I have not got the words at

hands—operation of a railway service would really mean that a complete absence of passenger service and that a railway does not necessarily entail passenger service?

● (5.40 p.m.)

Mr. SINCLAIR: Of course so. I have instances of it, all kinds that I can give you. For instance, let us say that the Canadian Pacific Railway consisted of a line from Vancouver down through the Kootenays and over the Crowsnest and over to Lethbridge. There has not been any railway passenger service in that area for a good many years, and I think that that railway is being operated well. The "requirement" would be translated into operating it efficiently forever, and I think it is serving the needs there, because the travel habits of people change.

Let me give you another example, Mr. Saltzman. Let us say that the power pack of Gemini IX, which did not, apparently, work, but it was there, was going to be made available to you, Mr. Saltzman and everybody like you, and myself, for \$3.00. So I could just turn it on and I could hop from Ottawa to Montreal and land in my backyard. Now certainly I do not know who is going to ride a train if everybody can buy a power pack for three bucks. I do not think that is fanciful, or Buck Rogers too much because I am a pretty young fellow and I have seen open air cockpit airplanes—the ones that I have seen the specs on—with nine feet some inches intakes on four engines that will handle in mock-up—they are not flying yet but will be in a couple of years—600, 700 and up to 900 people, Mr. Saltzman, at less than a cent per passenger mile.

Mr. SALTSMAN: I would like to make a suggestion with regard to your analogy, and I think this is something you have been ignoring to a considerable extent; this is the question of customer preference. Now I think I can mention, and I am sure you can visualize, all kinds of little old ladies who would like to have a power pack strapped on to their backs and fly to the moon that way, and I think this is fairly crucial to this question of alternative services. Now, in our hearings throughout the West, and my own experience is largely the same, I find there are many people who simply prefer the train for one reason or another. They prefer them for reasons of fear of aircraft, for comfort, or for other considerations. Therefore, it is in some ways a necessary passenger service that I would think is not going to be eliminated even by the advent of power packs on people's back so they can fly to the moon.

Mr. SINCLAIR: Let me give you an example, Mr. Saltzman. We run steamship services. Because of labour difficulties we had to cancel it out. We had some nine hundred passengers in England. We chartered Aer Lingus, a Boeing with 190 seat capacity. Some of these people on there—I do not know if you use the phrase "old ladies"—who apparently had fear of aircraft were travelling by water. I happen to know a couple of them personally. We put them on Aer Lingus. We said to them, "well, you have never flown before." This only happened in the last couple of weeks. We said, "well, you can go if you wish, we have chartered this aircraft, or you can wait until this labour difficulty is over, but we do not know just when that is going to be, and then you have to get packed up and so on and so on." We carried 193 people across the Atlantic and over 150 of those people had never been in an aircraft before. We talked to them afterwards, and I am sorry to say that most, if not all, we have lost for

steamship travel. So that all we have to do is put on that power pack and get them off the ground the first time, Mr. Saltzman.

Mr. SALTSMAN: Well, I do not want to be argumentative with you on it. I have flown; I have used every mode of transportation, and I might say that there are advantages to each one of them.

Just one further question. This problem of competition amongst competing services, and this might be a hypothetical question, but I have always been inclined to feel that by having a transportation system that includes rail, air, busses and other forms of transportation, perhaps this has considerably diminished the competition between kinds of transportation, because to a company like that it might not be of any great urgency which one ultimately survives, and perhaps there should be companies with specific responsibilities either in surface transportation or air transportation, and if this were so, that perhaps the attitude of the railroads, not having any compensating air revenue, might be a little more aggressive in terms of attracting passengers.

Mr. SINCLAIR: I disagree with you Mr. Saltzman. I wish I could hire you—we run all types of transportation—and you would come and work for us. You would certainly find out that if you are in the rail side you are out there, and you are in there, and you are going to work at it and you are going to be 100 per cent for it or else you will not stay with us. And this is the same in the air side, or in the steamship side. And it can not be otherwise. We are transportation specialists. We have specialized staff in each area, but we work on a segmentized basis and we certainly make people in that area sell what that area is providing. There is no question about this, that I think based on some twenty odd years of experience in a multi-transport organization and having been engaged in more than one segment of that transport—I mean rail and air, and so on—that I can tell you the advantages of knowing the pluses and the minuses in the various areas is where you can zero in to use the big plus that you have for sale, and this is a tremendous advantage. And I think, Mr. Saltzman, the fact that Canadian Pacific Airlines runs as good an airline as it does is a reflection of the experience that we have had in serving people on land and on sea.

The CHAIRMAN: Gentlemen, Mr. Sinclair and the officials of the CPR are to catch an 8.40 train. We have gone through quite a questioning period this afternoon. There are really no further questions because we want to adjourn at six. We will reassemble at eight, when the Minister of Transport will appear. Mr. Sinclair has advised me that he is prepared to return on Friday because he has other business in New York tomorrow. But unless there are other questions for which you think he should return on Friday, we are prepared to allow the CPR officials, Mr. Sinclair and Mr. Gossage to leave today at six o'clock.

Mr. SINCLAIR: We, in Canadian Pacific, stand ready to come back at any time to be of any assistance we can. We have said that since we first came here and I want to reiterate it.

The CHAIRMAN: We appreciate that, Mr. Sinclair, because members of the Committee have advised me that you may be coming back again very shortly.

Mr. SINCLAIR: I hope you would give us a little more lead time next time.

The CHAIRMAN: We will give you more notice because we have to adjourn our hearings this week because we intend to sit, with the concurrence of the committee, next week on Estimates, all day Tuesday, all day Thursday, and Friday morning.

Mr. SINCLAIR: It would assist me, Mr. Macaluso, and it would assist Mr. Gossage, who is giving evidence tomorrow in another place—I am going to be in New York, and we do make plans in advance—if we are coming back on Friday, to know as soon as possible. You could let me know or let my office know. If you could let me know now it would help me.

The CHAIRMAN: I can let you know right now, Mr. Sinclair, that you will not be required to come back Friday. I think we will give you lots of notice. The committee is hearing other witnesses next week and we will give you more notice than even a week.

Mr. SINCLAIR: I appreciate that.

Mr. CHAIRMAN: Thank you very much, Mr. Sinclair. Before we adjourn I would like to have a motion from the floor of this committee to sit the days I have suggested next week in order that we can try to obtain permission of the House to sit in order to get through the Estimates, which are quite important. We have let the Transport estimates go for quite some time, and we will be on them for quite some time, I think. It will be all day Tuesday, all day Thursday and Friday morning.

Mr. ROCK: I so move.

Mr. SHERMAN: I second the motion.

Motion agreed to.

The CHAIRMAN: I have to be in the House before six for a private member's bill. I have asked the clerk to call a sub-committee meeting of the steering committee for Thursday afternoon right after our questions of the day in my office; notices will be sent out to that effect in order that we can discuss important matters of interim reports and agendas.

Mr. ROCK: Mr. Chairman, I would like to know again when the CNR is expected here?

The CHAIRMAN: We will discuss this at the sub-committee meeting on Thursday.

Mr. ROCK: Will you also discuss the possibility of having officials from United Aircraft.

The CHAIRMAN: United Aircraft, yes, Mr. Rock.

Mr. ROCK: You see, the point is that in newspaper it showed the model of the new train and so on. Now I do not know if it is in the position of United Aircraft, or the position of the CNR, and I think we will be asking them more or less the same questions. I think it would be advantageous to have them at the same time.

The CHAIRMAN: You have brought this to my attention; I have made note of the resolution during my absence, and I shall bring it up at the sub-committee meeting. The committee is adjourned.

EVENING SITTING

The CHAIRMAN: We have a quorum. Come to order, please.

As was stated on many occasions in this Committee, the Hon. Mr. Pickersgill, Minister of Transport, has said he would appear before the Committee for questioning. We are pleased to have the Minister with us this evening. Perhaps he will not make any long statements but subject himself to questioning by the Committee members, but I would like him to make a few introductory remarks.

Hon. J. W. PICKERSGILL (*Minister of Transport*): Well I am really rather at a loss to know what I should say, because I have not been present up to now at any meetings of the Committee. I have relied mostly on my Parliamentary Secretary, who has been very good about it, to keep me advised of what has been going on in the Committee. Perhaps, if you do not regard it as offensive or patronizing on my part, I would like to say how much I appreciate the way in which the Committee has been doing its work, as I have heard about it, not just from Mr. Byrne, but also from others, and particularly how much good I think you did to Parliament itself by your visit to Western Canada. It was, I think, an experience for those people who appeared before the Committee, as many of them did not expect to do so. What I hear is they were really almost convinced that members of Parliament were human beings like the rest of the citizenry. I think that is quite a gain in these times.

Now, as to the Canadian Pacific passenger service, if I had known all the answers I would not have suggested in the House the reference that was made to the Committee. I am looking to the members of the Committee for guidance and if I can help them at all in making up their minds about the terms of reference I will be very happy to do it.

Mr. BELL (*Saint John-Albert*): We would like to thank the Minister for taking time out from the busy schedule of the Department of Transport to come here. One thinks of references recently in the paper that the Minister of Transport must be a superman to be able to direct the different branches of the Department. Whether it is in the superman capacity or otherwise we welcome the Minister here tonight. We are also pleased that he made mention of our trip out west. We think it was quite successful. We found certain needs, we think, still, for different phases of past year activity and that will come out.

● (8.15 p.m.)

The Minister mentioned that members were thought to be very human when they were out west. All I can say is we were more than human everywhere we were, morning, noon and night. Now, the only thing that comes to my mind is in the nature of a question, I suppose. It comes out of questioning this afternoon of Mr. Sinclair. We wanted to be very serious in any interim report that might come forward. He pointed out to us, in his opinion, which we do not necessarily have to accept, there were many physical difficulties of bringing the "Dominion" on this summer. He said that we should almost have been thinking of March and April if it had been the thoughts of any to bring the "Dominion" back on this summer. We pointed out that the Committee had not even moved out west until May, so there is a chronological sequence to this. The question I would like the Minister to take a moment to explain to the

Committee is just what the timetable is in so far as the cabinet hearings on the appeal are concerned. When does the Minister anticipate that this might be dealt with? Are all the briefs in, and so on? We should like this information so that we can put our own recommendations into perspective. It is only a recommendation; the government can do what they like with it. That is the thought that I think we need cleared up.

Mr. PICKERSGILL: I think I would like to take two or three minutes on that. It was suggested to me, when I first considered asking the Committee to examine this whole question of Canadian Pacific passenger service, that I was putting the cabinet in a rather difficult position, because we have a statutory obligation to deal with this appeal in some fashion or other. Fortunately, there is no time limit on it, and there is no procedure laid down at all. There is no reason legally, according to the statute, why we should not just have a meeting of the cabinet tomorrow and say, "this is our disposition of the matter," without listening to anybody. But as a matter of fact, many appeals to the Governor in Council, and many appeals from the Air Transport Board to the Minister of Transport, are dealt with without any hearings at all; but it has generally been the view of previous governments, and I do not think we have had one yet, until this one, but it has generally been the view of previous governments, that when a number of provincial governments appeal a decision of the Board of Transport Commissioners, it is not enough just to receive their written briefs; but having regard to their importance and the importance of the railways in certain provinces, and that is particularly true of the Atlantic provinces and the prairie provinces, it is usual for the Governor in Council to set aside a day or part of a day on which they will listen to the verbal oral representations, or the appellants, whoever they may be and, of course, also listen to the representations of the party from whom there has been an appeal.

Now, I had been rather careful when I made the suggestion about the terms of reference of the Committee to make it broad enough that it would have been technically possible, I should think, for us to have made our decision and had our hearings at any time, notwithstanding the fact that the Committee was hearing a broader subject. I never thought that would be a very desirable thing to do, because I did not think it would be desirable to run the risk of having the government and a parliamentary committee, if we can avoid it, take different views of the same subject. But the matter has been largely taken out of the hands of the government, because the provincial governments, though they indicated quite early after the decision of the Board of Transport Commissioners that they were going to make this appeal, have only very recently, in the case of two of them, and the most recent one, of course, is Manitoba, made their written submission. Indeed, it was only last week that I received the submission—the 25th of May it was received in the Privy Council office, and I think it was sent to me the next day—of the government of Manitoba, and as they were one of the principal appellants it would not have made very much sense to have tried to hold the hearings any earlier.

I am not aware of any other appellant who has not made his submission, and I have been quite seriously thinking, in view of the timetable of the Committee, that perhaps I should recommend to my colleagues that we state publicly that we do not intend to receive any more. I think it would be quite

within our rights to do that, and certainly no could say that there has not been time enough. But it is usual, of course, in that case, to give a reasonable time for the railway to make its reply to these representations, and while I do not think, in view of the work that the Canadian Pacific has done for this Committee, it is going to take them very long to put their reply, still they are entitled I think, in equity, to a reasonable time to do so. I could not very seriously envisage any public hearing much before the last week in June, having regard to the fact, that it is the 7th of June now it would seem to me to be rather difficult. It may be, you know, that we may take several days or even as much as a week or so after that before we could reasonably be expected to reach a conclusion. It would therefore not seem to me to be reasonable to expect a decision before early July.

Mr. BELL (*Saint John-Albert*): Mr. Minister, you might uphold fully the Board of Transport Commissioners in their decision, or vary it?

Mr. PICKERSGILL: We have the technical right, of course, to vary it if we wish; and I know you would not wish to question me on that point, because it would be quite improper for me before we have heard the parties to give any kind of indication of what conclusion we are likely to reach.

Mr. BELL (*Saint John-Albert*): Just to repeat, if this Committee saw fit to make an interim report with respect to our opinion as to the need for passenger service, in view of our trip out west, you would consider this in some informal way along with these other matters?

Mr. PICKERSGILL: I can assure you, Mr. Chairman, and members of the Committee, that any recommendation made by this Committee would be treated by the government with the greatest possible respect. I think, of course, we have to recognize that under the statute Parliament has laid on the Governor in Council certain responsibilities, and it would not be proper for us to abdicate those responsibilities to anyone else; but we all belong to the House of Commons, and I do not think there is any doubt that any views expressed by the Committee would—well they are bound to have a great influence upon us in so far as they touch upon the relatively narrow question that is before us, which is a much narrower question than the question that is before the Committee.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, I do not have any more questions. I could ask the Minister questions on general transportation matters, but in view of the fact that the estimates are coming up and there will be opening statements and the like, and I presume the thought is just to stick tonight to the particular terms of reference.

Mr. OLSON: I was rather surprised at what Mr. Sinclair told us earlier today about the time required to get a second transcontinental train going. He began by saying—I think I am right in this—that to take all the equipment out of the dead storage that it is in, and so on, would require a matter of four or five months if they were to have it in shape so that it would provide a first class passenger service. Now, this of course, if we are going to be practical about it, almost means it is impossible to get this service back on for the summer of 1966. I was wondering if at any time the C.P.R. had made you aware of the time required to put this equipment in usable service.

Mr. PICKERSGILL: No; I have never had any conversations about this matter at all until this morning. Mr. Sinclair did me the courtesy of coming to see me at nine o'clock, before he came to the Committee, to give me a copy of the presentation to the Committee because I understand in the Committee he quoted me in a couple of places and he wanted me to know he was doing that.

In the course of our conversation he did, in a very brief way, tell me what I understood he was going to tell the Committee. But I must confess, never having run a railway up to now, I was a little surprised myself that it would require this amount of time. I, of course, was aware of the proviso in the judgment of the Board of Transport Commissioners which I have read that this equipment should be kept in being; but I must say, having had other things to engage my mind and my attention, it had not occurred to me that it would require anything like the time that Mr. Sinclair indicated to me. But as I say, it is not the kind of thing that is within my personal knowledge at all.

Mr. OLSON: The Board of Transport Commissioners judgment, the order of January 7 and the supplementary statement, which was not an order, of February 7 go together. It seems to me that what the provinces and the cities and the other people who appealed this judgment were doing, in fact, was only appealing the second part of the statement which deals with the service for the summer of 1966, because the board did, even in that supplementary judgment, still reserve the right or the power, or whatever you want to call it, to make still another supplementary judgment respecting 1967.

Now, if we are to take Mr. Sinclair at what he said in the first instance, to give any effect whatever to this appeal, if it is to have any practical effect for the summer of 1966, it should have been attended to almost immediately, and yet the CPR gave no indication that this time factor in refurbishing the equipment was present.

Mr. Sinclair said later on that it might be possible for them to start pulling the cars and running them over the rails, and they would be safe—this is not saying that it would be a satisfactory service—within two weeks. It is sometimes amazing what they can do if they are ordered to do it, is it not?

Mr. PICKERSGILL: Sometimes. I am very concerned about that question, Mr. Olson, in another context altogether. I am very reticent to order reluctant people to do things unless I am pretty sure my orders are going to be obeyed, and you can see that I am really diverting attention from the question you put to me. But I am quite sure that if the Governor in Council were to issue an order that some kind of service should be instituted at the earliest possible date, I would not have any real doubt that the management of the Canadian Pacific would do their utmost to comply with it. I would not doubt that at all.

Mr. OLSON: One other thing, Mr. Minister, that I would like to question you about just for a minute is that in the Board of Transport Commissioner hearings, and now again here, at these committee hearings, the CPR is always complaining about being under pressure for lack of equipment, it being diesel locomotives mostly. They tell us there were none ordered for delivery between September, 1965, and July, 1966, a period of ten months. I wonder what your opinion would be respecting this kind of statement from one of the major railways in meeting Canada's growing requirements for transportation, no delivery of new locomotives for a ten month period.

Mr. PICKERSGILL: Well I am very disturbed, of course, as I think I indicated before. I understand—and this does not apply only to the Canadian Pacific—that there is a certain feeling that I have been unduly critical of the railways, but I have been rather disturbed by the fact that it appeared to me that the Canadian railways were having a rather difficult time finding enough equipment—this applies perhaps more to freight than to passenger service—to carry the volume of goods being offered. I am afraid that one could go right across the board; that there is hardly anybody in this country in any line of endeavour who did not underestimate the requirements for the volume of economic activity that we have had. I think I would perhaps have some questions that I would raise in my mind about the amount of storage we have for wheat, particularly in Vancouver, and the capacity of all of us to do adequately what we have to do, even the number of translators we have to translate the proceedings of parliamentary committees. We just do not seem to have guessed, in 1962 and 1963, that this country could possibly grow as fast as it has. That, of course, is not confined to this country; the American railways are frightfully short of equipment too; some of them even shorter than our railways.

Mr. OLSON: Do you have any plans of any kind for any action to see that this shortage of equipment is not going to continue to be a chronic thing?

Mr. PICKERSGILL: I am giving very active consideration to that question, Mr. Olson, at the present time.

Mr. DEACHMAN: The question I wanted to ask the Minister was what suggestions have been made, or what discussions have taken place with regard to the possibility of overcrowding during 1967 of every transportation facility we have in this country? I ask this question because every time I go home to the coast I hear of some more young people all around me who are saving their money to come east in 1967. If they all carry out that wish, and they are saving for it and planning it, there is not a facility in this country that is not going to be overtaxed, and I just wonder whether or not we are dusting off the "Dominion" and every other facility we have in preparation for that event, and what drive the Canadian government is putting on to see that this is done?

Mr. PICKERSGILL: Well, I must say that I am really quite staggered by the—I have not pretended personally to make a detailed study of this matter, but constantly specific things are brought to my attention, and they all suggest the same difficulty, that no matter what form of transport you look at if the plans that people are now making are carried out there is going to be an obvious shortage, from the spring until the late autumn of 1967, of capacity to carry people to places where they want to go, and are willing to pay for going, in Canada. Sometimes I even wondered whether we should not postpone the centenary for a year to and make more adequate preparations for it, but I suppose that would be difficult.

Mr. DEACHMAN: This may diverge from the topic a little bit, but I am wondering about charter air lines, for example, whether arrangements are being made for that year or for the peak period anyway, for permitting charter services in Canada which would not normally be permitted across territory which is regularly flown over by Canadian air lines?

Mr. PICKERSGILL: Well, I am quite sure that there would not be any hesitation, once we are reasonably sure—as I am sure we will be—that the full capacity of the existing Canadian carriers is being used to permit other safe carriers, reputable and reliable carriers, to operate to meet this kind of problem. After all, there have been times, you know, in fairly recent history when it has been reversed and we have been able to do some things of that sort in other countries. I certainly do not think we would want to take a narrow view of this at all.

But I am afraid, you know, if air travel goes on at the rate it is going, there is likely to be an over-all shortage of capacity and not just in Canada.

Mr. SHERMAN: Thank you, Mr. Chairman. Mr. Pickersgill, in our deliberations considerable emphasis and considerable suspicion have surrounded the CPR costing methods and costing techniques employed in arriving at some of the statistics, some of the figures that the railway has presented to support its submission. Is there any chance in your view of submitting CPR costing methods to the examination of an independent, disinterested third party?

Mr. PICKERSGILL: You mean someone other than the Board of Transport Commissioners?

Mr. SHERMAN: Yes, sir.

Mr. PICKERSGILL: Well, that is something that would be perhaps a little difficult for the government to initiate unless we have evidence that the Board of Transport Commissioners was not doing the task adequately, but I certainly do think that with the kind of legislation that we are envisaging there will have to be a very considerable expansion of this kind of activity, either by the Board of Transport Commissioners or by someone else who will be objective and independent.

One of the great difficulties we face in Canada, and I said this just recently in Winnipeg, was that unfortunately the supply of competent people to do this job in any field of transportation economics in Canada does not come up to the demand; and when you try to find objective and competent people—you may find lots of competent people but they are nearly all employed by somebody and therefore their services are not available in a circumstance of this sort. If you go abroad, either to the United States or across the Atlantic, you have to spend so many months educating the people, the experts, in the geographical and other conditions of Canada before they can give you an expert opinion that it is a very slow and very costly process. I think that we ought to be investing a lot more money than we are doing in the education of experts, economists, accountants and so on, in the transportation field and I think we ought to put more public moneys than is being done into this.

Mr. SHERMAN: Recently the mayors, or representatives of the mayors' offices, of eight western cities were here in Ottawa visiting the cabinet, discussing the situation with the cabinet and also with this Committee. Did the mayors and these western municipal representatives have any meetings with you separately, independent of the cabinet?

Mr. PICKERSGILL: Yes, I received them all by myself. No, as a matter of fact one or two of my colleagues were with me, I must correct that. They were

received first by the Prime Minister and then by several ministers. Then they came to the Committee, all on the same day, as I recall.

Mr. SHERMAN: Were you impressed at all with any of the arguments presented?

Mr. PICKERSGILL: Well I was impressed with all their arguments. Perhaps I was not as equally impressed with all of them, but I was impressed. After all, when you get the mayors of eight cities in western Canada coming all the way to Ottawa to see a mere politician he is bound to be impressed.

Mr. SHERMAN: Were they more impressed than you were?

Mr. PICKERSGILL: Well, I have only tried, Mr. Sherman, to keep my own conscience.

Mr. SHERMAN: I would suggest that they were possibly more impressed than you were. In any event, do you think there is any merit or substance to their suggestion that a day liner service might be instituted, for example, in the west?

Mr. PICKERSGILL: Well, I must say that this is an idea that rather appeals to me, but it is a very difficult thing to be practising medicine in a field in which you are not trained, and I just do not feel that I am competent to form an opinion without a lot of study. If I had to listen to the arguments on one side and the other at great length, I think then I would be able to form as good an opinion as any other reasonably intelligent person would, but I have a feeling that possibly this is something that might be tried. You know, in the air field we are talking a great deal about establishing certain experimental services on a "use it or lose it" principle, and it does not seem to me that this need to be confined to aircraft.

Mr. SHERMAN: Nor to dayliners, necessarily? It could be applied to the "Dominion" or to any train.

Mr. PICKERSGILL: Quite. I do think that if the government were to require the railways—if they do it on their own volition it is one thing—the railway to provide certain services, then in equity it would be desirable to have a thorough and independent accounting done of the service. I do not think that one would be satisfied to go to the length of ordering Canadian Pacific to provide a certain service and then just let them decide whether it was being performed effectively or not. I think if you are going to do it at all you would have to go the whole way; you would have to appoint someone independently to audit the thing to see that they were really making an honest effort to get business.

Mr. SHERMAN: Did you feel, sir, that you were receiving from the mayors a consensus of the feeling in the west?

Mr. PICKERSGILL: Well, I had the impression, to be quite frank about it, and you are really, I think, pushing me a little hard in asking me to say what other people think, but I had the impression that the mayors of the western cities were perhaps more concerned about having decent air service than they were about rail service. You see, at the time they came to see me, if I remember rightly, it was just about the time the Transair had applied to be relieved of its

service and it was quite clear to me that they felt that the heavens were falling. First of all, the "Dominion" had been taken off and now the air services were going to be taken off; they just felt that they were being forgotten. Well, of course, the government did not permit Transair to take its services off without a public hearing, and the public hearing I think has now been arranged, and meanwhile the treasury is paying a subsidy to Transair to keep these services going. I had the impression that on balance perhaps they were more concerned about the air service than they were about the rail service; but what they were concerned about in a primary way was service, some kind of passenger service; that they were not being overlooked and neglected. That is the impression I got; that they were quite anxious to have us do our best to help provide the best and most effective service.

Mr. SHERMAN: In your own mind, sir, how do you reconcile the CPR's contention that rail passenger services cannot be made to pay the CNR's obvious contention that they can be made to pay?

Mr. PICKERSGILL: Well, I think I would rather let the Committee make a judgment on that before I do. I do have an opinion; I do not want you to think I do not have an opinion, but it is rather an educated opinion and I just think it would be imprudent of me at this stage to express an opinion on that at all.

Mr. SHERMAN: I have one more question, Mr. Chairman. Mr. Pickersgill, I mentioned to Mr. Sinclair this afternoon that a sort of paper curtain had descended on us in this Committee in these deliberations, because in the teeth of exhaustive briefs was this new brief submitted by the CPR today—a 52 page brief along with all the others with which we have been confronted. It is almost impossible to penetrate the mass of semantics and statistical information—

Mr. BELL (*Saint John-Albert*): And they quote everybody in the briefs if I may interject.

Mr. SHERMAN: It is like the Bible, you can pluck a quotation out of it to serve any argument you care to advance.

Mr. PICKERSGILL: Shakespeare, I imagine, though.

Mr. SHERMAN: Well I am not sure but that there is even the occasional reliance upon Shakespeare in here; but it will take us some considerable time, sir, to digest it and to understand it and make the comparisons that have to be made with other arguments that have been advanced. In the meantime I think I can say, speaking for myself at any rate, I have found that the consensus in the west was that the people of the west wanted the "Dominion" back in service, at least during the tourist seasons of 1966 and 1967. Now we have heard that a fair test of the "Dominion" and a fair re-introduction of the "Dominion" are not really possible in 1966.

To make as fair a trial, as fair a test, and as fair a service as possible in 1967, would require considerable promotion, as everybody agrees, and I would just like to ask you whether you do not agree that if this is going to be attempted and if it is going to be at all workable and possible next year the decision to re-introduce it in centennial year should at least be not deferred any longer than October or November.

Mr. PICKERSGILL: I would think that that would be pretty late. I would think that it should be possible. If the Canadian Pacific Railway does not itself decide to do it—I do not know, I did not hear Mr. Sinclair, I do not know whether anyone put that question to him, but if they did not decide and if it was to be left to the regulatory authority or to the Governor in Council, I would have thought that we should not leave it as late as October or November. The sooner the better because, from everybody's point of view, they could work out better schedules, better planning, and better promotion as you say, so I would gather that if all our expectations are realized for 1967, there should not have to be a great deal of promotion, since the traffic should just be there.

Mr. SHERMAN: Just so long as people know that it is running.

Mr. PICKERSGILL: Yes, you would obviously have to have some advertising and some timetables.

Mr. SHERMAN: Thank you.

Mr. ALLMAND: Mr. Pickersgill, one of the major areas of disagreement that we have encountered in our hearing is whether or not the CPR downgraded its service first and the falling off of passengers came second, or whether it was vice versa. Many of the briefs have alleged that the CPR downgraded it and then the falling off came, but the CPR said the other thing. Now, there are other people who think that even if the CPR did not downgrade, it did not go forward to meet the competition. In other words, it just kept the same consist and the same equipment and therefore comparatively speaking trains have become downgraded in comparison with the improving air lines and so forth. If the board was to rule that the "Dominion" was to be put back on, or if any other trains were ordered to be put back on or to be continued, I would like to know what sanction the government or the board has to see not only that the train is put back on but that it maintains proper service; because otherwise if you just order that a train be put back on you may get, as somebody has called it, a "Toonerville Trolley" or something, with two or three cars, and nobody would want to take it anyway. Is there a sanction available to keep up this type of service?

Mr. PICKERSGILL: Well, I would certainly think this, as I said earlier: If the Canadian Pacific Railway is not prepared to put the train on of its own volition, and if it is done as a result of governmental action or action by the board, it would certainly be competent, either to the government or to the board, to make provision. I do not think that you could perhaps do it at the expense of the railway, but I think if we decided to do it, it would perhaps be worth doing it at public expense: to have a proper continuous audit of the operation, to see how it was being done, by someone who was independent and competent, because in the light of the suggestions that have been made—and I do not wish to pass any judgment on them. I must say that my patronage of the "Dominion" for the last few years has been very poor indeed, so I do not really know whether it has been downgraded or not, to my personal knowledge, and I do not know from any secondary knowledge either that I can rely on. I know a lot of people have said it has and I know the railway has said it was not. But I would think that if the government feels it is important enough to have it ordered back on, then we should also take any steps that are open to us to see that it is operated in a manner that gives the public an adequate chance to use it.

Mr. ALLMAND: I have one other question. Some of the briefs have suggested that the Railway Act should be amended so that if a railway, the CPR for example, wishes, that they could be obliged to come to the board to have a service removed, not just to have the line removed. Has the government ever given any consideration to that?

Mr. PICKERSGILL: To changing the rules? In a way yes and in a way no. I think, perhaps if you look at what was in the bill that was before the last session of the last Parliament, in the section on passenger service it was approached in a rather different way, but in a way that would have had much the same effect. In other words, the government was proposing to pay a subsidy to the railways, on a diminishing scale, for the maintenance of the passenger service, so that there could be an orderly withdrawal of the service that was not, in fact, being patronized, and so that other services that did seem to be required but that could not be made to pay, would be provided at the expense of the exchequer. That is one way of doing it; another way I suppose is simply to say to the railways, "This is an obligation you have for the advantage of running a railway and whether you make money or not you cannot end the service unless you get a court order from the Board of Transport Commissioners".

Mr. ALLMAND: I think you misunderstood; I meant is there an amendment contemplated which would oblige the railway to come and apply first before abandoning a service?

Mr. PICKERSGILL: Well they do before they can abandon the line, do they not?

Mr. ALLMAND: Yes, but I mean the services on the line.

Mr. PICKERSGILL: For any service? Well, I do not know. It is certainly something that could be considered. In any event, you see, the reverse is available. I mean if they do abandon the service an interested party can apply for a hearing, and they have always got it, have they not?

Mr. OLSON: There are some difficulties at times.

Mr. PICKERSGILL: Yes.

Mr. CARTER: As we travelled out west, in my opinion anyway, there seemed to be a great fear among the people of the west that the elimination of the "Dominion" was only a prelude to the elimination at some time in the future of the "Canadian", and that the whole argument that applies to the "Dominion" is now applying to the "Canadian". Some of them pointed out that the "Canadian" service has already started to be downgraded by various factors, one being the morale of the employees on the train. They are disheartened and they see no future; they do not give the normal standard of service that they used to give when they had pride in their train and so forth. Then they said there was downgrading in the maintenance of these engines; that there was greater loss of time and breakdowns due to a lower quality of maintenance, and they listed various factors. As we listened to Mr. Sinclair, he based his whole argument on this that it is a misallocation of resources to keep the "Dominion" running. If this process continues whereby the "Canadian" service becomes no longer acceptable, then the same argument will apply; there will not be sufficient

passengers to keep it running. I think the question that bothers all of us is how can this sort of thing be prevented? Is it possible for a government to lay down certain standards of service which a railway must maintain; certain minimum standards which must be maintained and anything below this would not be considered acceptable? Has the government considered anything along those lines?

MR. PICKERSGILL: I do not think there is any question that Parliament would have the power to do that. I would not doubt that for a minute. One would have to consider very carefully whether, if we were not prepared to pay any deficit—with the Canadian National, of course, where we do pay the deficit, as you know, Mr. Carter, we provide a service across Cabot Strait and the government prescribes what the service will be and it has added steadily to the number of vessels—a new one started in operation on Sunday—and the deficit is paid by the government. But whether, under our economic arrangements that now exist, having regard to these things, we should require a so-called private company to provide a service without regard to whether it is remunerative or not without any provision for picking up the tab is a big question that I would not like to express an offhand view on just at the moment.

I am familiar with the argument that is used, that the Canadian Pacific Railway was very well treated many years ago and that therefore it incurred a perpetual obligation, regardless of whether it made profit or not, and of course I think every public utility does, because it is given a franchise, have certain obligations to the public that, let us say, a textile mill or a grocery store, does not necessarily have. But just how far they go and where you draw the line is a question that I really do not think I can give a categorical answer to. No royal commission has ever recommended this. The MacPherson's Commission recommended the exact opposite. It reached the view that passenger service, with a few exceptions, was not a paying proposition for the railways and that a very substantial annual payment on a decreasing basis should be made to the railways so that they could phase out the services that were not used, that were not paying, and have only those that would pay. As I say, up to now that has been as far as this—there have been many suggestions that the public should go it?

MR. CARTER: What bothers me, and I suppose other members of the Committee, is that Mr. Sinclair keeps assuring us that the "Canadian" will keep on running and that there is no thought of eliminating it and as far as we know it could go on forever. But yet you can see the same factors inexorably producing the same effects on the "Canadian" as they did on the "Dominion" and, economically, it must produce the same results. And merely requiring by order the CPR to operate a train, or a passenger service, unless that service is acceptable, then there is no point—they are just keeping within the letter of the law, but if it is not acceptable to the people then nobody will use it. I think what we are trying to grapple with to try to—find some device, some way of at least minimizing that effect and perhaps preventing it altogether.

MR. PICKERSGILL: You may think that I am very rash to volunteer a view, but I find it hard to contemplate the prospect of the Canadian Pacific Railway having no transcontinental train as far ahead as I think it is prudent for anybody to look in these matters where the technological change is

so great. I mean it may be because I am getting to be an old man, and because I was brought up on the prairies where the train was, in a way, a link with the world, and I have travelled so often over that Canadian Pacific line it seems to be a part of Canadian life. It really is quite hard for me to think there is going to be a day come when there will not be a train that you can get on in the Windsor station or in the Union station in Toronto and go to Vancouver on the CPR. You may think it is rather romantic nonsense, but if there are no passengers on it it does not make much sense. I do not think this is likely to happen very soon, and I do not think it is likely to happen very soon even if the train is not very profitable, because for the CPR one transcontinental passenger train is a relatively small part of its total transportation business.

Mr. PASCOE: Well, Mr. Chairman, with the Minister here I think we should speak our minds quite clearly. We were sent out to the west to assess the opinions and reactions of the people out there. We heard a great many briefs—I know there were 14 from my own city and we sat morning, afternoon and evening—and I think if we are honest we will admit that most of the briefs complained about—well they said that taking off the “Dominion” and just having the “Canadian” did not provide adequate rail passenger service in the west.

Mr. PICKERSGILL: And it is particularly true in Saskatchewan, I think.

Mr. PASCOE: Yes, I think so.

Mr. PICKERSGILL: Because of their timetable with other trains.

Mr. PASCOE: Mr. Pickersgill, you said that any recommendations from the Committee would receive great attention from the government. I think, Mr. Chairman, it is incumbent upon us to prepare an interim report as soon as we possibly can, after tonight if possible.

There is just one point that I think we should emphasize. I am not completely impressed with Mr. Sinclair's statement that it would take four or five months to get the “Dominion” back in service. He stated this afternoon that the CPR were watching very carefully the experiment of the CNR in regard to passenger service and indicated that if this proves successful—he did not say so but he indicated this—they would jump back in there, too. I take it from that that they would be back quite soon.

One other point these briefs emphasized, in my opinion anyway, was the social and economic impact upon communities when they lose adequate rail service. I think they emphasized, and they convinced me, that financial returns should not be the sole criterion for passenger service. Proceedings No. 12, which was a hearing in Moose Jaw, came out just today and to emphasize what I regard as the social and economic impact on a community losing passenger service, may I quote: With the removal of the “Dominion”, and particularly when you take into consideration the hours at which the “Canadian” passes through Moose Jaw, it is fair to say that Moose Jaw at the present time has a completely inadequate rail service. The “Canadian” goes through—and I have taken it quite a few times—coming east at 2.56 in the morning. You do not know whether to go to bed or not, and it goes through about five o'clock, going west.

Following up the social and economic impact, this brief says: “with the elimination of air service into the city, and with a considerable reduction of

train passenger services, it is increasingly difficult to encourage new industry and business to locate in this city." Then the brief goes on to talk about the great developments in oil and potash and it says that Moose Jaw has not benefited to any great extent by this and it says, "a significant factor in this regard is the inadequate passenger service available to business people particularly."

That is the only point I really wanted to stress, Mr. Chairman and Mr. Pickersgill. I think we should consider these economic and social impacts, dislocation of jobs et cetera, and not just merely the financial returns. If I can just repeat, I think it is the duty of this Committee to present an interim report as soon as possible.

I want to repeat what I tried to emphasize. I think Mr. Sinclair indicated this afternoon that if the CNR proved that getting out and advertising passenger service, really going after the business, was successful, the CPR, if it wanted to get back in—and he indicated that it would want to get back in if this was successful—could do it quite rapidly. As I say I was not too much impressed by the fact that he said it would take four or five months to get the "Dominion" back in service.

Mr. Rock: Mr. Chairman and Mr. Pickersgill, does the C.N.R. require your approval whenever they intend to make large capital expenditures, or they were going to fulfill a contract with an option to buy, such as they announced lately about the deal they are going to have with United Aircraft. Do they need your approval?

Mr. PICKERSGILL: Well, the capital budget of the Canadian National Railways has to be approved both by me—or at least recommended—and the Minister of Finance, and approved by the whole cabinet.

● (9.10 p.m.)

Mr. Rock: Yes, you means the budget itself?

Mr. PICKERSGILL: Yes.

Mr. Rock: Yes, but in between this kind of thing—

Mr. PICKERSGILL: Well, any item of that magnitude alters the budget. The capital budget has to be approved. That does not mean we decide how many pencils they are going to buy, but any major capital expenditure, even though it may not require any actual cash advances from the government, and they do not all. In the case of Air Canada a large part of their purchases were made out of their reserve, but they all require—both Air Canada and the Canadian National Railways—the approval of government.

Mr. Rock: Now I understand that an order in council will be passed regarding the service. I also understand that the Board of Transport Commissioners have ruled that the C.P.R. should keep the equipment until centennial year. I believe the C.P.R. have assured us that if, during centennial year, there is an excess of passengers they will extend the "Canadian". In other words, they are looking forward to more passengers for the "Canadian" and if necessary they will extend the "Canadian" and possibly have one train follow the other. Therefore, they are doing their best to look after the passengers who may wish to use that service during centennial year. Today we were told also

that it would take two months or more to put this service on. Because of the advertising and everything else that would be involved it is too late to try to bring the "Dominion" back this summer. I cannot see how an interim report at this time suggesting that the "Dominion" be placed back in service immediately, and kept on until centennial year, would do any good except in one place, namely, Moose Jaw, because of the hours, in other words, this two o'clock in the morning and five o'clock in the morning. The accusation of downgrading the line is something to weigh, but I cannot see how the cabinet could arrive at any decision and pass an order in council forcing them in any way to bring back the "Dominion" now or in centennial year when they intend to provide, on the schedule of the "Canadian", for any increase in traffic.

Mr. PICKERSGILL: Well, I do not know that I ought really to attempt to express any opinion on what the Committee ought to do. That is for the members of the Committee to decide. I would assume that the Committee would not wish to make recommendations that were not practical. We are all practical people, and I would rather hope that you would be a little reticent at trying to direct, or seeming to want to direct, the cabinet about the decision that it has under the statute to make with respect to the appeal itself. But that certainly would not, in my view, inhibit you from making any more general recommendations about the "Dominion" or about any other aspect of service, I must say I have a tremendous amount of sympathy for these people in Saskatchewan, because quite frankly I do not like getting up in the middle of the night to take a train any better than anybody else does; and I can see that those people who are lucky enough to live on parts of the Canadian Pacific line where the train travels both ways in the daytime, even if it does not stop in very many places, have what I would call a better service than they have across Saskatchewan, part of Alberta and part of Manitoba.

It may be that a better approach to this whole problem would be to try to fill in those gaps.

Mr. Rock: By rescheduling.

Mr. PICKERSGILL: No, you could not do it by rescheduling; you simply have to have some day service in the areas where the "Canadian" ran at night. I do not know how practical this would be, but I just say that it does seem to me—well just look at it from the point of view that Mr. Pascoe suggested, of the social and economic consequences of it, taking those into account this would have a certain amount of appeal, at first blush, to me.

Mr. SALTSMAN: In the brief presented to us by the province of Alberta in particular, considerable concern was expressed both in the brief and I think in the questioning that ensued regarding the way the Board of Transport Commissioners arrived at their decision. They pointed out that, whereas the railroad can come to the board with qualified experts and very capable people to defend their point of view and express their point of view, the brief expressed the opinion that the public interest perhaps was not as well represented, or the other point of view was not as well represented.

Mr. PICKERSGILL: Did you say that was from the government of Alberta?

Mr. SALTSMAN: Pardon?

Mr. PICKERSGILL: Did you say that was from the government of Alberta?

Mr. SALTSMAN: I believe it was from the government of Alberta.

Mr. PICKERSGILL: If there is one body in the whole of Canada that has had the advantage of an expert here in Ottawa over a long period of years I would have said it was the government of Alberta. I would be surprised if they were to express view, and it was probably just undue modesty on the part of their representative, that the railways or anyone else could have any expert greater than theirs.

Mr. SALTSMAN: I think it makes the brief even more significant in view of the fact that view was expressed by I think someone we all consider an expert who has done a great deal of work in this field; but the field is so complicated and the amount of work required for a presentation of this type is so elaborate that the view was expressed that some consideration should be given to the opposite point of view, having more representation in terms of economists and accountants, and things of this type.

Mr. PICKERSGILL: What you are suggesting is that perhaps there should be some kind of public—something like a counsel in a legal case. Some kind of experts available to appellants.

Mr. SALTSMAN: You pointed out earlier in the questioning that impartial experts or consulting experts were very difficult to obtain in these times, and the question I would like to put to you is whether the government would consider the establishment of a group of these experts to be available to the government and to people who have to make representation before the Board of Transport Commissioners so that they would feel that their point of view was adequately expressed and the point of view of the railroad was adequately investigated, and their figures were adequately investigated.

Mr. PICKERSGILL: Well, I do not like to be categorical about this, but I do see some quite considerable difficulties in it. In the first place, who would you say was to be given, so to speak, the right to have these people? Where would you draw the line? There will not be, perhaps, continuous appeals. What would they do for a living in between times? I would have thought, on balance, it would be much better, if they are not adequate at the present time, and I am not wishing to be critical of the Board of Transport Commissioners or their employees, but if they are not adequate at the present time, I would have thought that this could have been accomplished perhaps better by strengthening their own body of experts; because after all, however impressive the CPR's experts may be, or the experts of any other carrier, it is the business of the board, entrusted to it by Parliament, to make an independent judgment and to make it on its own basis and not to be unduly impressed by any of the people who appear before it.

In this particular field I would have thought it would have been better to strengthen the expert staff of the board, who would be continuously employed. I do not say it is a bad idea in itself, but I am not sure it is very practical; that is the only thing.

Mr. SALTSMAN: While recognizing the difficulties that the Minister has pointed out, perhaps the other should be considered; that the technical staff of the board be increased.

Mr. PICKERSGILL: Well, I think there is no question that we are going to make far greater demands on the Board of Transport Commissioners, unless this idea that I am toying with is carried out, that we establish a National

Transportation Commission, in which case it would simply be that commission instead of the Board of Transport Commissioners; but I do not think we have nearly enough expertise for the tremendous problems we have to face. It is not just the railways. I think in the field of air traffic the problems are even greater and more complex, because the changes in technology are so much more rapid in some ways. We do not envisage rebuilding the railways fundamentally, but I said yesterday in Montreal that when we build the \$17 million terminal we are now starting in Vancouver we would have finished cycle of building big airports, big air terminals in Canada. That was what was in my speech when I started to make it, and I remembered what I had heard the day before in Dorval and last week in Malton, that those two huge airports are now too small. And when I think about dealing with these planes that are going to be unloading 200 passengers and, not very far ahead, 450 passengers, and I envisage all the complex changes you have to make to do that thing efficiently and to try to do it as economically as possible, I just say we have not anything like the expertise we need in this field.

Mr. SALTSMAN: Mr. Chairman, I have just one further question. I would like to refer to the line of questioning that was taken a little earlier regarding the future policy of the discontinuance of transcontinental trains. Our experience during our trip out west was that many people were annoyed, because of the way the *Dominion* was discontinued on the decision of the railroad itself. Adequate representation could not be made at the time; they had to prepare their briefs very quickly and for this reason they felt that they could have done a better job had they had more time, or had the railroad had to go to the board prior to making an announcement of discontinuance. I think it would be very useful if something could be worked out to assure the people in the west that at least as far as the *Canadian* is concerned no discontinuance of that service will take place the way the *Dominion* was discontinued. Could you comment on that, sir?

Mr. PICKERSGILL: Well, certainly if the Committee came to the conclusion that that kind of recommendation was a suitable one to make I must say I would be very much impressed by it.

Mr. FAWCETT: I was presuming you would be acquainted with the authority and the functions of the Board of Transport Commissioners under the statutes as now set up. My first question is this: Would you say that the board had properly exercised its authority with respect to the quality of passenger trains, and has it been a policy leading body, or would you say it has been too passive in this respect?

Mr. PICKERSGILL: Well, I recognize the question, Mr. Fawcett, but I do not think I know the answer. I think it would be very difficult for me to say that I did not think the Board of Transport Commissioners was doing properly the duty entrusted to it by Parliament, because if I did I should try to get rid of them. Whether they have interpreted the statute the way Parliament intended them to, I think each member of Parliament has as much right to an opinion on that matter as the other. Personally, I feel that the board has some very competent members and an exceedingly conscientious chairman who, I am sure, is trying to carry out his duties as Parliament intended them to be carried out. I would not, since they are a court of record, be more disposed to criticize them

than I would feel very happy if the Chief Commissioner decided to criticize the way I carried on as the Minister of Transport. I think that is for you people and Parliament and for the electors to do. Parliament sets up the Board of Transport Commissioners and it did not set me up as their critic. I do not think I should assume that role.

Mr. FAWCETT: Well, I was curious to know just what their authority was, if it went that far or if it should go that far?

Mr. PICKERSGILL: Well, I think, you know, that laymen like you and me, should be very hesitant about interpreting statutes. As a matter of fact, you are a practical railroader. I know that; I have heard you make a few observations in the House, and one can tell that right off. I think, perhaps, I would respect your opinion about railways maybe more than you would mine.

Mr. FAWCETT: I appreciate those remarks, Mr. Pickersgill, but another question, too: The C.N.R. are instituting this new United Aircraft—

Mr. PICKERSGILL: Yes.

Mr. FAWCETT: —train. Now, this will have a very large element of government subsidization.

Mr. PICKERSGILL: I hope not; I sincerely hope not. That is not the way it was represented to me. The C.N.R. are of the opinion that this is going to be a money-making proposition. I hope they are right.

Mr. FAWCETT: I would feel that it would be too, because it certainly—

Mr. PICKERSGILL: This is a very imaginative thing, and if it works out I think it will be a lot better way to travel between Toronto and Montreal than driving in cars driven by a lot of my friends.

Mr. FAWCETT: Well, this subsidization seems to be fairly common. I think we all noticed not too long ago where the government of Ontario and Metro Toronto jumped into the commuter service with Canadian National. Now I am thinking of the part of western Ontario that the C.P.R. serves in particular where there are quite a number of large cities. Do you not think there are possibilities, or do you not think that something should be done perhaps in this regard to give these people this service?

Mr. PICKERSGILL: Well, I do not think it is exactly comparable, because when all is said and done what the government of Ontario is doing in that commuter service, which I now understand is going to be extended in Hamilton. It was originally to be from Burlington to Oshawa, as I remember it. I understand they did a very careful costing of the relative costs of underwriting that train and building the extra lanes of highway that they would otherwise have to build. It represented a net economy for the treasury of Ontario; so that in doing this, if they are right—and all these things are calculations before you do them—if they are right they are saving the taxpayers in Ottawa, North Bay and Sudbury money instead of the reverse. But to subsidize passenger traffic on a part of the main line of the CPR—it is true that there are a lot of very big places on the main line of the CPR, but there are an awful lot of places that are not on it, and what you are saying then is that the people of Edmonton, the people of Saskatoon, the people on most of the main line of the CN in northern Ontario, and the people everywhere east of Montreal, and the people in the whole

of southern Ontario, the taxpayers there, should be expected to pay taxes to provide service to a relatively limited number of the Canadian people on one particular railway line. Now, it is true it is a very long line, and it is quite a lot of people, but you see the people you are taking it from and the people you are giving it to are quite different in the one case from the other.

Mr. FAWCETT: I can see that, but I think we are all concerned with the fact that there appears to be such a very poor service, particularly through the southern part of the prairie provinces. I think it was mentioned before that the times the trains operate through these various places are very inconvenient to start with.

Mr. PICKERSGILL: Well, you see Mr. Bell and I might feel that it was really rather more important to have the subsidy to provide rather better services to the Atlantic provinces and that, of course, would be a parochial view that Mr. Bell, and I would never take. Mr. Bell wants the "Canadian" to go to the Atlantic provinces.

Mr. BELL (*Saint-John-Albert*): Mention was made out west at one stage of the fact that a certain group demanded a particular type of special service, and someone said "how about the rowboat service at Bonavista-Twillingate?"

Mr. PICKERSGILL: You have never been on the Bonavista branch have you?

Mr. FAWCETT: I just have one more question to ask of the Minister. What do you think the possibilities are for a sort of integrated over-all transportation policy where there would be some kind of control so that all these different types of transportation could be integrated and there would be more convenience for all concerned.

Mr. PICKERSGILL: Well, I think there is nothing rally, no aspect of the Canadian economy, that is more important than this one. I have been trying to say this in half a dozen places lately. There is no country in the world, at any rate no large country, where transportation costs are a higher fraction of total costs than they are in Canada. If we are going to compete with other countries in the world, if we are going to maintain our high standards of living, I think we just cannot afford to be wasteful about transportation, and that is why I think you just cannot look at this question of passenger service on the prairies without looking at air service at the same time. There is no doubt in my mind that in many places, if you provide an air service and a rail passenger service you will starve them both, but if you provide only one there may be enough traffic to keep it going. It is surely better to have one good service than two lousy services that are losing money, and that is a very simple kind of explanation. To my mind the integration of transport is really more important than the one Mr. Hellyer is doing.

Mr. FAWCETT: I think this is another point that was made very clear to us. Connections do not seem to jibe, there are all sorts of things that need to be corrected in order to have a better transportation service.

Mr. PICKERSGILL: I kind of feel that about flying to Ottawa often, you know.

Mr. OLSON: I have just one question, Mr. Chairman. I think the Minister said he would be a little bit unhappy if the Committee made recommendations that were difficult to achieve.

Mr. PICKERSGILL: Oh, no.

Mr. OLSON: Well, I took it that you would think that the Committee would have the responsibility of including in the consideration of their recommendations a practical way of achieving them. Now, our terms of reference do not include making an assessment of the CPR's inventory of equipment, and I was just wondering if you would have any resistance—that is not the right word either because after all, as you have said, the Committee are master of what they are going to recommend. Suppose we find that there is a need for another train during the summer, do you not think that we should put that in our findings, notwithstanding the practical problems of getting it established?

Mr. PICKERSGILL: Yes, well, by a recommendation that was not practical, Mr. Olson, all I meant to say was that if Mr. Sinclair was right in his "Dominion" really could not be put back into service in two weeks, I would hate to see the Committee stick out its neck and say it should be put into service in two weeks. That is all I meant by "practical".

Mr. OLSON: But there is a difference between that it should be put on or that we demand that it be put on, and stating that we find that there is a need for it.

Mr. PICKERSGILL: Yes, I quite agree. I do not think I am all-wise in these matters and, indeed, I am really looking for guidance in a lot of these fields, because they are not easy, and I am sure the members of the Committee have found that out. When you go into these things they are a lot more complicated than they look when you are just a consumer of service. I do not want to inhibit the Committee, or to do anything that appears to be trying to inhibit the Committee's judgment in any way. The only thing is—that is not quite true—I did express the hope that you would not actually try to tell the cabinet exactly how it was to deal with the appeal. With that one exception—

Mr. SALTSMAN: I have a very short question for the Minister. It has been brought to the Minister's attention that almost everywhere we went out west representations, were made to the Committee for a national co-ordinated transportation policy and I was wondering whether the Minister wished to comment on that, or if his department had plans for such a policy.

Mr. PICKERSGILL: Well, this is a very awkward question for me, because I have not gone to the cabinet and asked them if they are in favour of this, and if I say that I am in favour of it and then I get knocked down in the cabinet, all of you are going to have a field day when I bring my legislation in. I think perhaps you know where my heart is in this matter.

Mr. DEACHMAN: I have just one last question, Mr. Chairman. Mr. Pickersgill, is it conceivable to you that this country will just not need a train like the "Dominion" running in 1967, at the peak of the centennial celebrations? Is it conceivable to you that we could say that we could really do without this thing now and lead ourselves into a situation in which we find it rusting away on the sidelines somewhere?

Mr. PICKERSGILL: Well, I do not think I am going to answer that question in that "have you stopped beating your wife" form? I will say that I think we should either say the train should be brought into operation in 1967, unless the

CPR beats us to it, or we should tell them to sell the junk and forget about it. I cannot see any conceivable point in going on very much longer saying we must keep this equipment in storage in case we might need it in 1967. I feel that in the next two or three months somebody should decide quite definitely whether that train is going to be put on or not and either put it on or tell them to forget about it for good.

● (9.30 p.m.)

Mr. DEACHMAN: Well, sir, the people of the west, or the people of British Columbia, are going to be pretty mad at this parliament and pretty mad at the CPR if we make a wrong decision about that train for 1967, because they want to come east.

The CHAIRMAN: The people of where, did you say?

Mr. DEACHMAN: The people of British Columbia. You were speaking of the people of Vancouver and they are all going to fly.

The CHAIRMAN: Well, that ends the questioning, gentlemen. I would like to thank the Minister for taking time out and coming here this evening. The Minister will be back shortly with us again on the estimates. It was our intention to start the estimates next Tuesday. However, I am informed that if we want to start them on Thursday we may begin them on Thursday.

Mr. PICKERSGILL: I would like to enter this caveat that I had planned to be away on Thursday, and I have come to the conclusion that I cannot very well carry out the engagement I had and I expect to be here. Part of the reason I am staying here is that I do not want to miss the cabinet meeting, and it would not be very convenient for me if you want me to start the estimates if I had to do it in the morning; but if you can get permission to sit on Thursday afternoon to start the estimates it would be quite convenient for me to come then and start them I hope, having done that, perhaps if Mr. Byrne were here and the officials were here, and you saved up the hard questions for me at the end, you would not perhaps necessarily require me to be here the whole time.

The CHAIRMAN: I was thinking along that line. If that meets with the approval of the Committee we can call a meeting and try to get permission from the House to sit Thursday afternoon, just for the purpose of an opening statement by the Minister.

Mr. OLSON: Perhaps we should meet on Thursday morning to finalize the interim report.

The CHAIRMAN: Well, there is a subcommittee meeting right after the question period on Thursday.

Mr. PICKERSGILL: Well I just thought that if there was the possibility, I have been watching the progress in the House and I do think that it would be very desirable if it was possible to get some of the estimates out of some of these committees and back into the House fairly soon, because we have a fairly limited number of departments available in the House.

The CHAIRMAN: Suppose we start them on Friday morning; how would that be?

Mr. PICKERSGILL: That would be fine with me.

The CHAIRMAN: On Friday morning we will meet to hear the opening statement by the Minister on the estimates. Shall we meet at 9.30?

We will sit from 9.30 to 11.00, then. I do not think the opening statement will take none than an hour and a half.

Mr. PICKERSGILL: No.

Mr. BELL (*Saint John-Albert*): Are we proceeding on the assumption that it is impossible on Thursday?

The CHAIRMAN: Well, tomorrow there are a great number going to Montreal for the Expo and I understand some will be staying over until Thursday morning; this is my fear.

Mr. PICKERSGILL: What about Thursday afternoon.

The CHAIRMAN: Thursday afternoon between four and six would be fine if we can get the permission of the House to sit.

I will arrange that. It has been moved by Mr. Sherman, seconded by Mr. Allmand that we ask the permission of the House to sit Thursday afternoon.

All in favour?

Motion agreed to.

Now before we leave I do want to bring to the attention of the members that if we are going to suspend our hearings until such time as the estimates are through, I have had correspondence and telephone discussions with Mr. Burwash who is the director of the economic and accounting branch of the Board of Transport Commissioners. Mr. Burwash sent a letter dated June 1, 1966:
Dear Mr. Macaluso:

In accordance with a previous exchange of correspondence with the secretary of this board, I have been prepared to appear before your Committee on the matter of cost analysis re the "Dominion". This is to advise you that I expect to be away at a board hearing during most of the week of June 6.

I had planned to have with me before the Committee Mr. A. V. Harris, partner in the firm of Riddell, Stead, Graham and Hutchison, Montreal. Riddell have for many years been retained under an order in council as outside accounting consultants, and they played a major role in developing the uniform classification of accounts prescribed by the board for Canadian railways. A knowledge of this background would, I believe, be useful to the Committee.

Both Mr. Harris and I would appreciate as much notice as possible if and when the Committee wishes us to appear.

I answered that letter on June 3, that we would give as much notice as we possibly can in this regard and would be contacting him some time next week to advise him of a date after the Committee meets on Tuesday, June 7.

Then I received a further letter dated June 2 from Mr. Burwash:

Dear Mr. Macaluso:

Further to my letter of yesterday, it has occurred to me that some of the material which I have prepared in order to assist the Committee may be useful to you at this time, as noted in the press, you are preparing an interim report prior to completing your hearings.

The material which I am enclosing contains numbered sheets designed for my own reference if I were questioned along the lines indicated by the headings, i.e.: No. 2, testing the reasonableness of the "Dominion" cost estimates. No. 2A, reducing the "Dominion" loss by curtailing service. No. 3, disallowances made by the Board in the "Dominion" case. No. 4, cost and revenues of the "Dominion" on a daily basis for 10 operating units. No. 4(a), inter-city travel trends 1949-1964. No. 9, railway cost accounting in Canada, a general non-technical explanation. No. 9A, attachments re depreciation costs in abandonment applications, and Chief Commissioner's letter to railway presidents re Board organization for costing. No. 11, memorandum re Professor Berge's suggestion on avoidable costs.

The missing numbers represent other materials such as annual reports, to which I might refer during a hearing. I have also enclosed four unnumbered sheets: (1) Names of Board witnesses. (2) Definition of "effective demand". (3) Variable cost disallowances made by the MacPherson Commission. (4) Memorandum regarding figures which were wrongly presented in the Manitoba brief during the Committee's Winnipeg sitting. Yours very truly, Malcolm Burwash.

I think it would be of use to the Committee, that, instead of having these all printed and distributed, I would like to get a motion to have these all printed as an appendix to our Minutes of Proceedings and Evidence, and then we would have them and be prepared for Mr. Burwash when he comes before this Committee, and also it would be wise if I advised Mr. Burwash we may be ready for him, say, within a week, probably after next week, and assuming the estimates are finished next week we can call him the following week.

It is moved by Mr. Fawcett and seconded by Mr. Bell that the documents sent to us by Mr. Burwash be printed as an appendix to our minutes and proceedings.

Motion agreed to.

That is all the business I have at the present time; therefore we will adjourn until Thursday afternoon, and we will see how things go in the House so far as getting permission is concerned.

APPENDIX "A-4"

TO
THE HOUSE OF COMMONS STANDING COMMITTEE
ON
TRANSPORT AND COMMUNICATIONS
FURTHER PRESENTATION OF CANADIAN PACIFIC

June 7, 1966.

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Costing

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Considerable misunderstanding of the costing techniques used by Canadian Pacific has been apparent during the Committee's hearings. This appears to have arisen out of a misconception of railway costing and of the techniques used for that purpose. A review of some points should clarify the matter and be of assistance.

Adjustment of the variable cost of grain by the MacPherson Royal Commission

References were made to the fact that the MacPherson Royal Commission reduced the short-fall of revenue on variable costs for export grain from \$17 million to \$2 million, and statements were made that this reduction was attributable to the costing methods used by Canadian Pacific.

It should be known that the reduction in the variable cost of export grain made by the MacPherson Royal Commission was not due to the costing methods used by Canadian Pacific. The major reduction was due to the adoption of a different concept by the Commission regarding solely related branch lines and to the use of a different rate for cost of money.

Both Canadian Pacific and Canadian National had included in the variable cost of moving export grain the cost of solely related branch lines. The MacPherson Royal Commission disassociated these branch line costs from grain entirely and therefore reduced the cost of moving grain by the amounts applicable to the solely related branch lines, and dealt with branch lines in another way. At Page 63, Volume I of its report the MacPherson Royal Commission refers to this matter as follows:

In the first place, the railways included in variable cost maintenance costs attributable to the maintenance of miles of track said to be 'solely related' to grain. We were impressed, during our hearings, with evidence which indicated that many of these lines are in fact carrying very light traffic. We have said above that we consider the existence of light density lines of importance in the group of problems facing Canadian shippers and railways. Recommendations to meet this problem have been made. In our present considerations we have, therefore, removed this expense from the costs applicable to the carriage of export grain. (emphasis added)

The recommendations referred to above in respect of light density lines are dealt with on page 62, Volume I as follows:

We, therefore, recommend that, under the administration of the Board of Transport Commissioners for Canada, an annual grant of \$13 million be made available to provide compensation for losses actually incurred in the operation of lines which the railways are prepared to abandon, but which shall be continued for a period of time to be determined by the Board. In Volume II of the Report we will make recommendations on the procedures to be followed in the application of this grant.

It is seen clearly from its report that the MacPherson Royal Commission recommended the payment of a specific amount to compensate the railway for losses actually incurred on uneconomic branch lines and that it wished to keep

the payments in this regard entirely separate from payments recommended in respect of the movement of export grain.

Both railways included in the cost of grain traffic an item termed "cost of money" which was developed on the basis of the cost of debt and equity capital supported in evidence presented before the Commission. The Commission concluded that the cost of money for grain should not be different from that which the railways could earn on rail investment generally under the permissive level of earnings allowed by the Board of Transport Commissioners, and accordingly reduced the variable cost of grain by an amount equal to the difference between cost of money based on the rate of 6.5 per cent as used by the railways and the rate of 3.74 per cent as indicated by the permissive level of earnings allowed by the Board.

The adjustments for branch lines and for cost of money above discussed accounted for over \$13 million of the reduction. The other reductions which were relatively minor were due to such matters as the number of box car days, average weight of train, and multiple car cuts in switching.

Railway costing was a matter of major interest to the MacPherson Royal Commission and therefore it is appropriate to record here its comments on the methods used by the railways. At Page 54, Volume I of its report the Commission stated:

The railways presented studies intended to show the costs associated with the movement of grain and grain products from Western Canada to export positions. The techniques developed are, in our opinion, significant contributions to the science and art of solving the very complex and vexatious problem of transportation costing. The techniques used to achieve the results are not unique to railway costing, although the results are of necessity couched in terms of the railway accounts. We are aware that the studies are not solely applicable to the movement of grain, but have utility also in costing other movements.

At pages 18 and 19, Volume II, it also said:

The development of costing techniques is particularly vital for railways, and we have been impressed by the degree of sophistication already displayed. The submissions made to this Commission on the costs associated with the movement of grain and grain products from Western Canada to export positions is evidence that the science and art of cost finding have made significant strides.

Multiple Regression Analysis

At Page 187, Volume 4, of transcript we said:

that none of the experts that came forward, no matter who they were appearing for, disagreed with the application of regressive analysis in appropriate joint cost problems

At Page 534, Volume 8 of transcript, Mr. Fawcett in questioning the representatives of the National Farmers' Union said:

But would you go this far, and I will ask one of the two gentlemen on the other side, would you go this far as to say that this regression

analysis system is merely a cost accounting system to get away from the old cumbersome way of cost accounting and that actually, it is for the convenience of organizations that are involved in a very large business. It is a cost accounting set up for convenience mainly, would you agree with that?

Mr. KIEFERLE: Most certainly, I would.

It is clear that there is a lot of misunderstanding regarding the use of the multiple regression analysis technique in railway costing and, most particularly, in the costing of passenger train service. The general misconception is that, as suggested by Mr. Fawcett and others, the multiple regression analysis is a cost accounting system while in effect it is a tool which enables cost analysts to separate joint costs which before the development of this technique had to be apportioned on some arbitrary formula. In discussions of the multiple regression analysis, there seemed to be an inference that this technique was used to develop practically all railway costs. While the multiple regression analysis is an excellent technique, it is only used when it is required and needless to say that it is not being used when the direct method can be applied to arrive at cost.

For example, an analysis of the variable cost of passenger train service for the year 1965 as reported on page 52, Volume I of transcript indicates that 63.5 per cent of these costs were developed by the direct method as they are directly assigned to passenger train service. These include, among others, wages of train and engine crews, train fuel, passenger car repairs and depreciation, the cost of operating sleeping cars and dining and buffet service, etc. The multiple regression analysis was used to develop only 13.2 per cent of the variable costs of passenger train service. An analysis of the variable costs of "The Dominion" for the year 1964 shows that approximately the same percentage of the total cost was developed by each costing method.

It is generally agreed by cost experts that the multiple regression analysis is an eminently suitable technique to develop the cost for various types of transportation service where the cost is incurred jointly and accordingly cannot be assessed to any single type of transportation service. In this regard the MacPherson Royal Commission at page 55, Volume I of its report, said:

For that considerable body of expenses in the Accounts which are known to be variable with work performed to a greater or lesser degree, but are not directly assignable, the availability of computers and the regression techniques give a sound statistical basis for apportionment amongst various segments of traffic.

It is undoubtedly because of a lack of familiarity with railway costing that suggestions are made that the multiple regression analysis does not produce reasonably accurate variable costs and, more particularly, that the variable costs of system passenger train service or of "The Dominion" are incorrect because of the use of the multiple regression analysis technique.

Review of the cost of passenger train service by the MacPherson Royal Commission

At Winnipeg, Mr. O'Keefe asked Mr. Mauro if he felt that the Committee could accept the passenger train service cost figures since the MacPherson

Royal Commission had already made a review of the cost of passenger train service. Mr. Mauro answered that the Commission had performed no costing on passenger services and that it had only received figures.

Mr. Mauro may have left the impression that the MacPherson Royal Commission did not review the studies of the cost of passenger train service submitted by the railways. The MacPherson Royal Commission had in fact reviewed the cost of passenger train service developed by the railways and at pages 58 and 59, Volume I of its report, made adjustments to the cost developed by each railway, and also brought the cost of the two railways to a comparable basis.

Critique of Professor Stanley Berge

At page 367, Volume 6 of transcript, Mr. Wright, Counsel for the Canadian Railway Labour Executives Association, read into the record long excerpts from an article written by Stanley Berge, Professor of Transportation, Northwestern University School of Business, entitled "Some Suggestions for Modification of the Interstate Commerce Commission's Rules Governing the Separation of Railroad Freight and Passenger Service Costs."

This article is one of the numerous articles written by Professor Berge in the last twenty years in which he criticizes the rules of the Interstate Commerce Commission for the separation of expenses between freight and passenger service.

Under the Interstate Commerce Commission rules, the railways first assign to passenger service the expenses that are directly or naturally assignable to that service and apportion all the other expenses on the basis of statistical factors or on the basis of the division of expenses which have already been directly assigned.

Mr. Wright's inference in introducing Professor Berge's article was that the methods used by Canadian Pacific in developing the variable cost of passenger train service are the same as those prescribed in the Interstate Commerce Commission rules, and therefore, the criticism directed against the Interstate Commerce Commission methods by Professor Berge equally applies to the costs submitted by Canadian Pacific.

Mr. Wright is obviously misinformed because Canadian Pacific does not use the methods prescribed by the Interstate Commerce Commission and criticized by Professor Berge or similar methods in passenger train costing.

The theory of Professor Berge is that the principal business of railways is the carriage of freight traffic and that passenger service is a by-product. At the conceptual level, the position of Canadian Pacific does not differ from that of Professor Berge. It has been our position for many years that the formula prescribed by the Interstate Commerce Commission was entirely inappropriate for the separation of railway expenses between freight and passenger service and, consequently, produced unrealistic results of passenger service.

Professor Berge's implementation of his concept, however, is entirely inadequate. In his articles, he advocated the costing of passenger train service on an avoidable cost basis and measured avoidable cost as the cost reported by

railroads in the United States as solely or directly related to passenger train service. His computations ignore the fact that the separation between common and solely related expenses in the United States proceeds under vague instructions of the Interstate Commerce Commission so that the reported solely related expenses are only an arbitrary figure.

Contradictions are also found in the information furnished by Professor Berge as to the determinants of cost. At page 18 of the article referred to above, which is printed as an Appendix to the proceedings in Volume 6, page 421, he says:

All common or joint costs should be charged against the primary product, which in the case of the U.S. Class I Railroads is undeniably freight service.

His procedure, therefore, merely assumes away common or joint costs which have always been and still are the central problem of railway costing. On the other hand, one of the changes which he suggests in the separation rules on page 423 reads as follows:

Separate common expenses, *on the basis of special studies*, which are deemed to be avoidable if passenger and allied services were to be discontinued.

Canadian Pacific's approach to the costing of passenger train service is to identify the elements of cost which are the direct result of the operation of passenger train service. Some of these elements are readily available from the accounts, which are kept in conformity with the Uniform Classification of Accounts prescribed by the Board of Transport Commissioners. Examples of these are the costs of operating sleeping and parlour cars and the cost of dining and buffet service. For many primary expense accounts, internal records are kept which segregate the costs which are directly assignable to passenger train service. This is done, for example, for wages of train and engine crews which are recorded by individual passenger trains, and for "train other expenses" which are segregated between the cost of cleaning, heating, lighting, lubricating, icing and watering, and air conditioning passenger cars, the cost of train supplies for passenger trains, and the costs directly related to freight cars and freight trains. To develop certain elements of cost, special studies are made. An example is yard switching where time studies are made to develop the cost for individual passenger trains and for total passenger train service. Where the expenses are common to both freight service and passenger service, Canadian Pacific uses the multiple regression analysis which in the opinion of railroad cost analysts here and in the United States is the most advanced and effective technique available to determine variable costs per unit of output.

To sum up, at the conceptual level, Canadian Pacific and Professor Berge are not far apart. Canadian Pacific's position is that passenger traffic is a by-product of the railway plant and should bear no portion of constant cost. Variable cost is the relevant basis for costing passenger train service. Canadian Pacific has gone a long way in the maintenance of detailed records and in the development of techniques for a determination of the variable cost of passenger train service consistent with its concept. In contrast, Professor Berge is still making vague suggestions of changes in the separation rules. He has not yet

come up with specific methods which would permit the implementation of his costing concept with regard to passenger train service.

The variable cost of "The Dominion"

Many people who appeared before your Committee have been critical of the cost of "The Dominion" submitted by Canadian Pacific to the Board of Transport Commissioners and have alleged that these costs were overstated. These allegations, however, were of a very general nature and none of these was substantiated by facts.

Misinterpretation of cost figures

In the proceedings before the Board of Transport Commissioners in "The Dominion" case, Canadian Pacific filed Exhibit 4 which shows the revenues and variable costs of "The Dominion" for the year 1964 as follows:

Revenues	\$11,154,234
Variable Cost	20,828,166
Excess of Variable Cost over Revenue	<u>\$ 9,673,832</u>

Canadian Pacific also filed Exhibit 5 which shows a projection of revenues and variable cost of "The Dominion" as operated after September 7, 1965 for a full year. The revenues and variable costs of the projection for the full year were as follows:

Revenues	\$ 2,852,100
Variable Cost	7,732,100
Excess of Variable Cost over Revenue	<u>\$ 4,880,000</u>

Paragraph 37, page 17 of the Province of Manitoba brief to your Committee reads as follows:

The foregoing examples indicate the unacceptability of the cost evidence submitted. In addition the Board itself, with admitted limitation for critical cost analysis, reduced the C.P.R.'s alleged costs from \$20 million to \$6 million and the deficit from \$9.6 million to \$3 million.

The Board should have rejected completely evidence which indicated cost exaggerations of 300% and ordered a proper and full costing of the Dominion service. Surely the public interest required satisfaction of such an important factor before discontinuance was allowed.

The statement in the Province of Manitoba Brief regarding the reduction of the cost from \$20 million to \$6 million is a typical illustration of a complete misunderstanding of cost figures. The amount of \$20 million referred to was the variable cost of "The Dominion" for the year 1964 as reported in Exhibit 4 and included the cost of operating trains 4 and 5 between Winnipeg and Vancouver during the summer period and the cost of moving head-end traffic on "The Dominion" for the full year. On the other hand, it is clear from the judgment of

the Board of Transport Commissioners in "The Dominion" case dated January 7, 1966 that the amount of \$6 million represented the estimate made by the Board staff of the saveable expense as a result of the discontinuance of "The Dominion", with its reduced consist, as it was operated after September 7, 1965.

The judgment of the Board in this regard, at page 84, reads as follows:

The Board's staff have made a general study and examination of the operation of the present train and the expenses claimed by the Company. They have done so in order to determine the amount of the saveable expenses, on a 'bare bones' basis and excluding cost of money, were the train discontinued. I am in agreement with their estimate that the saveable expenses on that basis would be in the neighbour of \$6,000,000 and the deficit about \$3,000,000.

The variable costs submitted by Canadian Pacific for "The Dominion" with the reduced consist in exhibit 5, including cost of money, was \$7.7 million. It is therefore obvious that Canadian Pacific had not overstated its costs by 300 per cent as stated in the Province of Manitoba Brief. Furthermore, simple arithmetic would disclose the error made by the Province of Manitoba in its brief. Exhibit 4 filed with the Board of Transport Commissioners in "The Dominion" case shows that the revenues of "The Dominion" for the year 1964 were \$11.1 million. Therefore, if the variable costs of \$20 million had been reduced to \$6 million, there would have been a profit of over \$5 million instead of a deficit of \$3 million as referred to in the Province of Manitoba Brief.

At page 14 the Brief of the Province of Manitoba reads as follows:

The CPR included as a variable cost an amount totalling \$2.7 million for cost of money. This was based on a factor of 11.4 per cent on the net investment. The Board has on previous occasions established a cost of money factor in determining its requirements formula in setting freight rates. In the case of the CPR this item was fixed at 3.75 per cent, and we note at page 84 of the judgment the alleged savings under this category are disallowed.

The factor of 11.4 per cent used by Canadian Pacific for cost of money is the gross rate of cost of money, including a provision for income tax, whereas the factor of 3.75 per cent as established by the Board on the basis of the requirements formula is known as the net rate of cost of money, i.e. after deduction of the applicable income tax. This is another case of need for closer reading or possibly better understanding of the Board's judgment.

Road Maintenance

At page 339, Volume 6 of transcript, Mr. Wright contrasted the variable cost of road maintenance for "The Dominion" in 1964, amounting to \$1,932,000, with the estimated cost of road maintenance by reason of the movement of grain sold to Russia in 1965 which he incorrectly reported as \$500,000.

The variable cost of road maintenance of \$1.9 million was for the operation of "The Dominion" during the year 1964 which included for the full year head-end traffic and also for the summer period trains 4 and 5 operated between Winnipeg and Vancouver. Mr. Wright inferred that the cost of \$1.9 million was for "The Dominion" with its reduced consist.

Furthermore, the estimated cost of road maintenance resulting from the movement of Russian grain was given by Mr. Nepveu in evidence as \$1.5 million, not as \$500,000 as stated by Mr. Wright. The figure of \$1.5 million is found at page 6585 of transcript in "The Dominion" case.

The gross ton miles of "The Dominion" for the year 1964 were 2.3 billion whereas the gross ton miles attributable to the movement of grain sold to Russia in 1965 were estimated to be slightly in excess of 4 billion. It is not surprising that the variable cost of road maintenance for the operation of "The Dominion" in 1964 was in excess of the estimated variable cost of road maintenance for the movement of the Russian grain as it is a well-known fact, generally recognized by railroad engineers, that the operation of passenger trains causes relatively larger track maintenance expenses than freight trains.

Studies conducted by Canadian Pacific have indicated that the cost of track maintenance for a passenger gross ton mile was equivalent to the cost for 2 freight gross ton miles. The greater impact of passenger trains on track expense is due to the greater speed at which they are operated and also to the higher standard of track structure required for passenger train operations, such as better line and surface, super-elevation on curves, etc. Certain cost analysis in the United States have suggested that the cost of track maintenance for a passenger gross ton mile was equivalent to the cost for 6 freight gross ton miles and others have suggested that when freight trains are operated on lines used for passenger train operation, the higher cost of the wear and tear caused by freight trains on a line built to passenger train service standard in comparison with the cost over a line used only for freight trains should be charged to passenger train service. Canadian Pacific does not agree to either suggestion; it does not use a factor of 6 to 1 passenger service and it only charges to passenger service the variable cost of track maintenance arising from the operation of passenger trains.

Transferred Cost

At pages 339 and 340, Volume 6 of transcript, Mr. Wright said:

If they are going to use the diesels that were used on "The Dominion" and put them on the Russian grain contract, how can they talk about depreciation for those very same locomotives by reason of the fact that they have taken them off "The Dominion"?

Paragraph 21 of the Brief of the Province of Manitoba at page 9 reads as follows:

Unless the board's staff had access to information that was not tendered in evidence, the statements on this category of costs indicate that *either the C.P.R. will be laying off in excess of 100 men, which information is important if the Board was to properly assess the impact on the public generally, or that they cannot have savings of \$10,000,000 in the category of labor alone.*

Some people seem to have difficulty with regard to the transfer of cost from one service to another. With regard to the depreciation on diesel locomotives, there can be no argument that depreciation is a valid cost. So long as the diesels were used on "The Dominion", depreciation on these units was a cost of

operating that train. With the discontinuance of "The Dominion" the units were transferred and used in freight service and depreciation on these units became a cost of moving freight traffic. Surely it cannot be suggested that depreciation on units used in freight service continues to be a cost of operating "The Dominion". This can perhaps be better understood by looking at it another way as follows: If the operation of "The Dominion" had to be continued and diesel units from "The Dominion" had not been available to handle the additional freight which had to be moved, it would have been necessary to secure additional diesel units. The cost of depreciation to the Company would then have been the total of the cost for the units on "The Dominion" and the cost for the additional units in freight service.

The fallacy in the reasoning in the Province of Manitoba Brief that either the Canadian Pacific Railway Company will be laying off in excess of 100 men or that they cannot have savings of \$10 million in the category of labour alone should have been obvious to Mr. Mauro. First the \$10 million, assuming that this figure is accepted for this purpose, would represent the labour included in the variable cost of operating "The Dominion" in the year 1964, including trains 4 and 5 during the summer period and the head-end traffic for the full year. The figure of 100 men which was subsequently produced in evidence before the Board of Transport Commissioners, was the estimate of lay-offs expected as a result of the discontinuance of "The Dominion" as it was operated from September 7, 1965, that is, with its reduced consist, no head-end traffic and without trains 4 and 5. "The Dominion" operated during the year 1964 had already been reduced through the discontinuance of trains 4 and 5 between Winnipeg and Vancouver in the summer time, by the transfer of head-end traffic from "The Dominion" to fast freight trains at the end of June 1965 and by the elimination of sleeping and dining cars on September 7, 1965. The transfer of head-end traffic had already resulted in a transfer of personnel to freight and the reduction in the consist had resulted in few lay-offs as the great majority of sleeping car and dining car employees during the summer period were students engaged on a temporary basis only.

Furthermore, the discontinuance of "The Dominion" took place during a period when there was a substantial increase in freight traffic. As a result, as soon as the locomotives were released more freight trains were operated, thus employing more crews and new positions became available in other areas, enabling the company to offer alternative employment to most of the employees whose work in passenger service was no longer required.

CONTRACTUAL OBLIGATIONS

At Page 56, Volume I of Transcript, the Company's brief reads as follows:

What has not been generally understood and what must be emphasized in the strongest possible terms is that the passenger train service programme followed by the Company has been in the best interests of the people of Canada and in faithful accord with the Company's obligation under its contract of 1880, which required the company to:

—thereafter and forever efficiently maintain, work and run the Canadian Pacific Railway.

At Page 348, Volume 6 of Transcript, the Canadian Railway Labour Executive Association makes reference to Canadian Pacific's contractual obligations as follows:

I say that the Canadian Pacific, in effect, gave a promissory note to Canada and, with the greatest respect, I put it to you that Parliament must determine what the value of that note is.

The Contract of 1880 states by Clause 9 the purpose of the grants of money and land—

for which subsidies the construction of the Canadian Pacific Railway shall be completed and the same shall be equipped, maintained and operated,—the said subsidies respectively to be paid and granted as the work of construction shall proceed, in manner and upon the conditions following—

The conditions then applied were that the payments of money and grants of land were to be made at so much per mile of completed line in portions not less than 20 miles in length.

The contract clearly shows that the grants were in aid of construction; as each 20-mile section was completed land was made available for settlement which would generate traffic and money was made available to assist construction of the next 20 miles. There is confirmation of this purpose in the provision that for the Eastern Section from Callander to Selkirk, where costs of construction were higher and opportunities of settlement were lower, the money grant per mile was to be higher and the land grant lower than in the central section, where for most of the distance the reverse conditions existed.

It is obvious from the quantum and application of the grants that the parties intended them as a means of getting the railway established as a going concern. The money was spent in construction, and most of the land was sold to settlers for nominal amounts to open up the west.

At Page 323, Volume 6 of transcript the Canadian Railway Labour Executives Association states:

One can understand CPR's pre-occupation with the necessity of showing a profit, but one is entitled to ask whether this predilection with profit has not come to represent CPR's total concept of its responsibilities under the 1880 contract.

Canadian Pacific is fully cognizant of its responsibility under the 1880 contract. The obligation remaining upon the Company after the line was built and equipped was simply to operate it in perpetuity in accordance with its Act of Incorporation and the Railway Act.

In the interpretation of contracts the guiding principle is the normal meaning of the language used by the parties in the document. An interpretation that would lead to an unreasonable result is not to be inferred unless the intention is clearly stated.

The contract of 1880 was to remain in effect forever, and the parties were well aware from past experience even at that time that revolutionary changes could occur over future years in transportation as well as all other phases of activity. In railways they had already seen a development from horse-drawn

rail cars to wood-burning steam locomotives and then to larger coal burning locomotives, each development bringing a tremendous increase in efficiency. It could not fail to be obvious to them that in a contract effective for all time the prudent course was to leave open and flexible the services that the company was to perform provided it operated always up to the current standards of an efficient railway.

In other words, Canada was being assured of a transportation service by rail that would be adaptable to change as the needs of the country altered. The obligation upon the company to change with the times, to adopt new methods and to eliminate what had ceased to be efficient is basic. The continuous process of modernizing includes not only the employment of new methods, services and equipment, but also the pruning off of what has become inefficient and wasteful, so that at all times the country will receive the service that it needs with the greatest expedition at the lowest possible cost. The continued operation of trains that have so far outlived their need that patronage can only be induced by fares at less than cost is the very opposite of the requirements of the contract. It is a waste of manpower and motive power that could otherwise be employed productively to the advantage of the country.

Where the rail passenger service has become superfluous and wasteful, in the interests of maximum productivity, as well as in compliance with the contract made by this Company with the people of Canada, it should be eliminated.

At Page 515, Volume 8 of the transcript, the brief of the National Farmers' Union reads as follows:

It is clear, then, that the construction of a transcontinental railway system, along with the tariff policy of 1879, was designed to develop a national industrial economy. In terms of this policy, the CPR was regarded as a means to an end, not an end in itself. Indeed, the CPR owes its very existence, among other things, to the deliberate and total disregard of the market mechanism; a mechanism, we hasten to add, which would have directed the flow of traffic north and south rather than east and west.

Yet the officers of the CPR would have us believe that the Company is like any other corporate business institution in our economy and should therefore be judged on criteria appropriate to business institutions in a changing capitalist society.

At Page 514, Volume 8 of the transcript, the brief quotes part of the preamble to the Act of 1881:

More to the point is the preamble to the Act of 1881 which reads:

Whereas by the terms and conditions of the admission of British Columbia into Union with the Dominion of Canada, the Government of the Dominion has assumed the obligation of causing a railway to be constructed, connecting the seaboard of British Columbia with the railway system of Canada.

And, of course, the preamble goes on.

The quotation in the brief of the National Farmers' Union omits the second paragraph of the preamble, the most significant passage, which indicates

Parliament's decision to turn away from the public ownership concept and to insist instead upon establishment on a firm footing of a private enterprise attractive to investors. The second paragraph of the preamble reads as follows:

And whereas the Parliament of Canada has repeatedly declared a preference for the construction and operation of such Railway by means of an incorporated Company aided by grants of money and land, rather than by the Government,—

Thus the national policy as regards the railway was to create a business enterprise upon a firm foundation. The agreement and the Act of 1881 were both political and economic. They had a political purpose, based upon sound economics; the creation of a firmly-established private enterprise that would unite and develop the country without a continual drain on the public treasury, which is the history of public ownership of railways both in Canada and elsewhere.

The whole tenor of the agreement is in accord with this purpose. Plainly the company was intended to supply a transportation service fitting the needs of the nation at all times without economic waste and at the lowest possible costs.

At page 523, Volume 8 of the transcript, the brief of the National Farmers' Union states:

(3) The CPR, by refusing to provide adequate and efficient passenger train service, has violated the terms of the 1880 Contract with the Dominion Government. The violation of the Contract is, we submit, a serious offence. The injury to the public is compounded in view of the tremendous investment the public has made in the construction and development of the CPR system.

The Parliament of Canada under Section 315 of the Railway Act has empowered the Board to determine what is adequate and suitable accommodation in respect of railway service, and neither the National Farmers' Union nor anyone else can point to a single instance in which the Company has refused or failed to provide what the Board judged to be adequate service.

At page 518, Volume 8 of the transcript, the brief of the National Farmers' Union refers to a provision written into Section 11 of the contract which stated that:

—should any of such sections consist in a material degree of land not fairly fit for settlement, the Company shall not be obliged to receive them as part of such grant.

It must be remembered that the Government had a very definite and useful purpose to serve by making these land grants to the Company, namely the opening up and settling of the west, as stated in the preamble to the Act of 1881, ratifying the Contract with Canadian Pacific: "... it is necessary for the development of the North-West Territory ..." By conveying these lands to the Company the Government made the Company automatically a partner and ally in this endeavour. The Government intended the Company to dispose of the land to settlers, and the Company did so at a rapid rate. Obviously it could not have fulfilled this purpose if the land in its possession had been unfit for settlement.

It should also be recalled that in 1880 the easiest consideration that the Government could possibly give was a grant of land. The land had no value to the Government and supplies of it were virtually limitless.

On either side of the railway the Company received the odd-numbered sections, the homesteaders the even-numbered ones. Some of the present holders of the homestead land are probably among the members of the National Farmers' Union who are now claiming that a land grant carries with it a perpetual obligation to the Government, going even beyond the terms of the grant.

Canadian Pacific was very far from getting its land grants free; it paid for them by the assumption of tremendous risks and obligations which it undertook for the assistance of the Government and the building of Canada. It is strange now to hear some of those whose land was also by Government grants, contending that Canadian Pacific because of its land grants must maintain indefinitely for their possible occasional convenience the trains and services whose need and patronage have long since disappeared.

In discussing the obligations of Canadian Pacific Railway under the contract of 1880, the brief of the Province of Manitoba states as follows:

At Page 19, para. 43:

The Canadian Pacific Railway Company was thus to be the chosen instrument of national policy, fulfilling the purposes and obligations of the Dominion.

At Page 20, para. 44:

The line, privately owned and operated, was to be a national line built as part of a national policy to fulfill national purposes.

At Page 21, para. 47:

the corporation's policy in discontinuing passenger services indicates that the company has assumed that all corporate obligations under the contract of 1880 have been fulfilled.

At Page 25, para. 50, quoting an extract from a submission of the Province of Manitoba to the MacPherson Royal Commission, it states:

The province of Manitoba also submits that the Parliament of Canada when it established the Canadian Pacific Railway Company envisioned a corporate entity and not a corporation with a dual purpose and with the segregation of assets between the rail enterprise and the various subsidiary enterprises.

parliament had no intention that the company might exercise its additional powers as ends in themselves or for purposes divorced from the objective for which the company was originally formed.

At Page 26, para. 52:

Pursuant to this rationale we are witnessing what is in effect an internal "spin-off" of corporate assets from rail to non-rail enterprise.

Canadian Pacific agrees that its line was built as part of a national policy to fulfill national purposes and, accordingly, that it has a responsibility to provide a transportation service in Canada to meet the effective demand of the public. As stated at Page 60, Volume 1 of Transcript:

Over the years the Company has met and is continuing to meet its obligations to the people of Canada. In this country as perhaps in few other countries in the world the existence of a sound transportation service is vital to the economy of the country and it is suggested that no other country has had its demands for rail transportation supplied more efficiently than has Canada by Canadian Pacific.

The Company is conscious of its responsibilities to the people of Canada as a transportation company and also as a Canadian corporation.

Canadian Pacific cannot find, however, anywhere in the text of the meaning of the 1880 contract, or in the national policy that it implements, any requirement to perpetuate railway services that have lost their usefulness. Such a requirement would be the very opposite of what Parliament intended when it declared a preference for the construction and operation of the railway by means of an incorporated company, rather than by Government.

Canadian Pacific acknowledges without hesitation that it has an obligation to provide railway services that are required as the effective demand may exist and change from time to time, but it most strongly believes that no resources in Canada, whether they are of Canadian Pacific or of the taxpayers should be expended upon operations which changing conditions have made redundant. Such expenditures waste the nation's wealth and its manpower.

The crux of the issue is whether the company is by contract required to waste scarce resources. To suggest that the signors of the contract had such intention is, on its face, absurd.

The brief of Manitoba and some other briefs presented to the Committee had endeavoured to paint a picture of Canadian Pacific as a ruthless corporation ignoring the obligations of its contract and arbitrarily cutting off service to the public at its own discretion. The true facts are far removed from this; the contract has always been most carefully observed, and the Railway Act leaves no discretion with the railway to act in an arbitrary manner even if it desired to do so. Parliament has cautiously preserved the rights of the public, and in our submission the policy and actions of the company have been entirely in accord with the purpose of Parliament and with the best interests of Canada.

NON-RAIL INCOME

At page 559, Volume 9 of transcript, the Brief of the Province of British Columbia reads as follows:

We agree that other rail services, such as freight services ought not to bear the cost of maintaining a passenger service which is required in the public interest. We remain unconvinced that the cost of such service should not be borne by the non-rail income. It is the view of the Government of British Columbia, that if the service is required in the public interest, it ought to be paid out of the non-rail income.

Others who have appeared before your Committee have suggested that the passenger train service deficit be paid out of non-rail income. However, Counsel for British Columbia later in his presentation realizing, as others have done, the undesirable economic consequences backed away from the suggestion.

The inclusion of non-rail income to offset rail costs received the careful attention of numerous Boards of Transport Commissioners and Royal Commissions appointed to study railway transportation in Canada.

Some examples:

In the Eastern Tolls Case (1916) 22 C.R.C. 4, the Chief Commissioner, Sir Henry L. Drayton, K.C., of Ontario, said at page 26 in regard to the Canadian Pacific Railway Company and its outside investments:

Some shippers have claimed that, with the Canadian Pacific still making a proper and sufficient return, no increase in rates can be justified.

As it occurs to me, the mere fact that the Canadian Pacific, as a result in part, as it may be, of its steamship operations, pays a good return to its shareholders, raises no argument one way or the other as to the reasonableness of freight rates in a given territory in which that company operates.

At page 19 of the Judgment of the Board of Transport Commissioners in the 21% Case, Chief Commissioner J. A. Cross, of Regina, after referring to the Other Income of Canadian Pacific, said:

If the income from profitable outside investments is to be used to reduce what would otherwise be just and reasonable rates, then it may well be argued that if net losses were made in any such undertakings the users of the railway transportation services might be called upon to pay higher rates to recoup such losses. This would be a highly undesirable situation.

It seems to me that neither the profits nor the losses on other outside investments should be taken into account in fixing just and reasonable transportation rates.

The propriety of segregating railway and non-railway assets, revenues and income was one of the terms of reference on pages 5 and 6 of the Royal Commission on Transportation appointed in December, 1948, of which Mr. Justice Turgeon of Saskatchewan was the Chairman. It read as follows:

- (d) Review the present-day accounting methods and statistical procedure of railways in Canada, and report upon the advisability of adopting, (or otherwise), measures conducive to uniformity in such matters, and upon other related problems such as depreciation accounting, the segregation of assets, revenues and other incomes, etc., as between railway and non-railway items.

The Commission recommended at page 218 of its report that the Railway Act be amended so that the Board of Transport Commissioners shall:

- (a) Be empowered and directed to prescribe as soon as practicable a uniform classification and system of accounts and reports for rail

items for the Canadian National and Canadian Pacific railways. Such classification and system of accounts and reports to distinguish clearly between rail and non-rail items.

The determination as to whether non-rail income should be taken into account in establishing railway freight rates was also one of the directives to the Royal Commission on Transportation chaired by Mr. M. A. MacPherson, again of Regina.

In its discussion of other assets and income the Commission said at page 72, Volume II, of its report:

Regardless of the profitability of other assets, what would be the effect of using them and the income associated with them in determining the level of rail freight rates? In practice, how much difference would it make?

Dealing with the first question, that of principle, we are guided by those objectives of efficient resource allocation which we have set out for the National Transportation Policy. This means that all modes of transport shall be given a fair chance to find their proper place within an increasingly competitive system. The use of other assets in establishing rail rates would distort the competitive environment and for this reason alone would cause us to recommend that other assets not be considered.

With regard to the fact that some of the non-rail assets are the results of national grants, the Commission at page 74 had this to say:

It is that the non-rail assets are, at least in part, the results of national grants made to the railway companies over the years to encourage the building of the railways. If this is so, it is claimed that it is only right that the profits should be used to assist in the transport of goods in the nation—or at least in that part of the nation where the grants were made. We can find no evidence that either the donor or receiver contemplated such action. Grants were made to get the railways built.

At page 75 the Commission stated its conclusions as follows:

Therefore, on principle, and on all the implications of the principle, and for reasons associated with the objectives of National Transportation Policy, we do not recommend that assets and earnings of railway companies in businesses and investments other than railways be taken into account in setting freight rates.

The level of freight rates, of course, was not a subject matter in the proceedings before your Committee. It was proposed, however, that the passenger train service deficits be paid out of non-rail income so that these deficits may not be borne by the freight traffic. It is obvious that the results of this proposal would be the same as the results of proposals made before the Board and various Commissions that the non-rail income be taken into account in determining the level of freight rates. The conclusions reached by the Board and the various Commissions regarding the impropriety of taking into account non-rail assets and earnings, therefore, equally apply to the passenger train service deficit.

Other Investments

When he appeared before your Committee at Winnipeg on May 13, Mr. Mauro said that the Crow's Nest Agreement gave Canadian Pacific 11 million dollars in grants and Consolidated Mining and Smelting Company.

Mr. Mauro did not give the source of the figure of \$11 million, but that figure is wrong. Canadian Pacific received cash subsidies from the Government of Canada amounting to \$3,404,720 under the Crow's Nest Agreement and it received from the Province of British Columbia land grants, the net proceeds of which on sale were \$1,834,498, for the construction of the Crow's Nest Pass Branch.

Confusion also arises in the minds of many concerning the grants made to Canadian Pacific under its contract with the Government of Canada dated October 21, 1880, for the building of the main line and the Crow's Nest Agreement. There is no connection whatsoever between the land grants received by Canadian Pacific in exchange for its obligation to build the main line and the Crow's Nest Agreement. The land grants for the main line antedate the Crow's Nest Agreement by some 17 years and none of the lands received under the contract for the building of the main line were in southern British Columbia.

Mr. Mauro's statement that the Crow's Nest Agreement gave Canadian Pacific Consolidated Mining and Smelting Company is wrong. The interest of Canadian Pacific in Consolidated Mining and Smelting was in no way connected with grants for the construction of the Crow's Nest Line. Canadian Pacific's interest in Consolidated Mining and Smelting had its beginning as a speculative investment acquired originally by purchase and added to by purchase of stock from time to time including purchases in 1966.

Officers of Canadian Pacific, acting on its behalf, by Agreement dated February 11, 1898, purchased from F. August Heinze of Butte, Montana, the properties of British Columbia Smelting and Refining Company at Trail Creek for \$200,000. Canadian Pacific then appointed a manager who carried on the business under the name Canadian Smelting Works on its behalf. The only additional capital put in by Canadian Pacific up to 1905 was \$5,000. Canadian Pacific received no income from this investment up to 1905. In 1905 the manager of Canadian Smelting Works, acting in connection with a syndicate, completed negotiations for acquisition on behalf of Canadian Pacific of 46.8 per cent of the shares of St. Eugene Consolidated Mining Company, Limited, 42.7 per cent of the shares of Centre Star Mining Co. Ltd., 25.1 per cent of the shares of War Eagle Development and Mining Company, Limited, and all the shares of Rossland Power Company. The price for these acquisitions was \$825,000.

For the purpose of amalgamating these undertakings, a company called Canadian Consolidated Mines, Limited, was incorporated by Federal Charter, January 9, 1906. On February 14, 1906, the name was changed to The Consolidated Mining and Smelting Company of Canada, Limited (hereafter called Cominco). Shortly thereafter Canadian Smelting Works was sold to Cominco for 7,500 shares of its capital stock. For the holdings acquired in other companies in 1905 previously referred to, Canadian Pacific received 18,014 shares

of Cominco. This resulted in Canadian Pacific holding initially 25,514 shares or 54.3 per cent of the Capital Stock of Cominco.

Until 1916 the acquisition costing \$825,000 was financed by a bank loan secured by part of this stock, and dividends received on Cominco stock were largely applied toward interest and principal of the bank loan. Certain shares were sold from time to time and the proceeds applied toward the bank loan. Likewise, additional shares were purchased and the bank loan increased by the cost thereof. The bank loan was finally closed out in 1916 by cash paid by Canadian Pacific. Thereafter Canadian Pacific bought and sold Cominco stock from time to time. In 1916 Canadian Pacific exchanged its holdings of Common Stock of West Kootenay Power and Light Company, Limited, which had been purchased in 1912, for shares of Cominco. In 1919 Canadian Pacific subscribed to \$2,698,400 of convertible bonds which were converted to stock in 1925. Canadian Pacific subscribed to additional stock offered to shareholders in 1930, and received further shares as stock dividends in 1931 and 1933.

Against the fortunate outcome of the investment in Cominco, Canadian Pacific made other speculative investments which were not successful. For example, \$492,500 was expended in 1928 to purchase 500,000 of 5½ per cent Debentures of Canada Power and Paper Corporation. Within a few years this company was bankrupt and Canadian Pacific received only \$75,000 in reorganization securities which when they were sold nineteen years later realized \$298,700. Some of the railway investments of Canadian Pacific have had an unfortunate end also. An example is investments in Spokane International Railway Company totalling more than \$4,500,000 made from 1916 to 1933 which were completely wiped out by bankruptcy in 1933.

At Page 569, Volume 9, of transcript, Mr. C. W. Brazier, representing the Province of British Columbia, made reference to the so-called Esquimalt and Nanaimo land grant in the following exchange with Mr. Andras:—

Mr. Andras: To sum up, Mr. Brazier, the untold bounty which the CPR received from this province, consisted of many things over and above the federal grant which was given to entice the Canadian Pacific Railway principals to put the railway through. The provincial grants over and above that are of very considerable value.

Mr. Brazier: The E. & N. being the principal one.

The so-called E. & N. land grant was conveyed to the E. & N. Railway Company as an aid in construction of the line from Esquimalt to Nanaimo (82.9 miles) under the E. & N. Statute of 1884. It was not until 1905 that Canadian Pacific purchased from the Dunsmuir interests the capital stock of the E. & N. Railway Company.

The stock purchase involved acquisition of the railway property and land separately.

Canadian Pacific did not receive the E. & N. timber lands as a grant. It bought the lands through purchasing the stock of a company which had held the lands for many years and which was anxious to dispose of them. Any other investor could have purchased E. & N. lands, and some did before the purchase by Canadian Pacific in 1905.

THE CANADIAN

In speaking of *The Canadian*, at page 15, volume I of the transcript, Mr. Crump said:

We reduced the transcontinental running time very markedly; something like 16 hours was taken off the time between Montreal and Vancouver by the institution of this train. The equipment which is now operating on *The Canadian*, I believe, from my personal knowledge, is as good as any equipment operating anywhere in the world.

On page 8 of the brief of the City of Medicine Hat, the following statement appears:

The Canadian, as we know it, is the only transcontinental passenger train left on the CPR and, therefore, it is very important to Canada as a whole that this prime railway service be promoted and upgraded.

It should be strongly emphasized that Canadian Pacific has no intention of permitting a deterioration of "*The Canadian*". The policy of maintaining this train to a high standard will be continued and care is being taken to ensure that the employees on this train serving the travelling public do so with enthusiasm and efficiency.

The on-time operation of passenger trains across Canada in the winter months is at best difficult and, over the years, passenger train performance has suffered on this account. The extreme severity of last winter for extended periods seriously affected the performance of "*The Canadian*". Operating conditions in the mountains are subject to disruptions by snowslides in winter, rock slides at various times of the year and washouts because of heavy rains or sudden changes in temperature. When washouts occur, they can disrupt operations for days on end. The Committee had one example of the disruptions caused by washouts on their Western trip. These are acts of God beyond the control of the Company.

All railway operations are subject to disruptions on account of fortuitious circumstances, such as failures of equipment and, unfortunately, on rare occasions, failures of men. These also disrupt service and the Committee, also had evidence of some of these unfortunate results. All railway and transportation agencies are subject to these unfortunate circumstances beyond their control and struggle to minimize their impact and results.

As a matter of policy, the necessity for "*The Canadian*" being operated on time is continually being stressed with the responsible officers.

The Committee may be aware that the Board of Transport Commissioners requested the railways to maintain a record of available or unsold space on its transcontinental trains for each trip in both directions during the Easter period of April 1st to 15th, 1966, as well as a record of requests for sleeping car space during that period, which the railway was unable to fill. The data for Canadian Pacific was duly filed and no doubt is available for examination by the Committee. The reports of vacant sleeping car space of "*The Canadian*" showed that a wide variety of space was available on "*The Canadian*" to patrons across the country during this period. The data submitted showed that there were only two instances when space was not available for the date requested but,

in 46 cases, the passengers did not wish to utilize the alternative space which was available.

When one considers the heavy travel period of Easter and that the report covered the entire passenger requirements between Montreal and Vancouver, certainly "The Canadian" more than fully filled the passenger requirements for the Easter period.

Now let us look at May which has just passed. Westward ex Sudbury, only 68.8 per cent of the berths on the train were occupied and only 39.8 per cent of the coach seats. In the eastward direction ex Vancouver during the same period, only 55.7 per cent of the berths and 26.9 per cent of the coach seats were occupied.

At the direction of the Board, records of occupancy or unsold space in sleeping cars and coaches, as well as unfilled requests for space are being maintained for the four months, June through September 1966.

In order to ensure that the reservation system in effect on Canadian Pacific is operated efficiently and to a standard adequate to meet the needs of the travelling public, a study team composed of research, passenger and telecommunications officers is presently making a further review of the mechanics of our reservation system in light of comments and complaints made to this Committee.

At pages 604-606, Volume 9 of Transcript, retired locomotive engineer, Mr. G. MacKenzie now at Vancouver, expressed his views in regard to pass privileges of employees and pensioners on "The Canadian". The discussion with Mr. MacKenzie does not make it clear that employees and pensioners are entitled to make a reservation of any kind on "The Canadian" as far in advance of travel date as they wish upon payment of half fare. As there is a possibility that Mr. MacKenzie does not clearly understand this feature, a Company officer has been in touch with him and explained the privilege to him.

With regard to suggestions made to the Committee by various employee representatives regarding free transportation, it should be pointed out that over the years, Railway Union representatives in wage determination have strongly opposed the crediting of any allowances for passes, and passes have always been specified by the Company as a privilege and never considered as a part of a railway employee's remuneration. Canadian Pacific knows of no organization outside of transportation that grants its employees even a 50 per cent discount.

At page 522, Volume 8, of transcript, the National Farmers' Union brief reads as follows:—

It is a fact that the CPR did not properly merchandise its passenger train service: it is a fact that the Company was reluctant to introduce a faresaver plan, and when it did so, provided a plan which does not compare favorably with that of the CNR; it is a fact that the Company did not give its faresaver plan, for what it is worth, a fair and adequate trial.

These suggestions are not facts. Canadian Pacific introduced its Faresaver Plan on October 27, 1963, on the same date that Canadian National adopted its Red, White and Blue Plan for transcontinental service (previously the CNR

had experimented with Red, White and Blue fares in the Maritimes commencing in May, 1962). The Faresaver Plan compared very favorably with the Red, White and Blue Plan. The two plans were not exactly the same; indeed on some days Canadian Pacific fares were slightly lower than those of Canadian National.

The Faresaver Plan was introduced with a major merchandising effort. Appropriate newspaper advertisements were carried across Canada. Special pamphlets were printed and given wide distribution throughout transportation agencies, i.e., travel agencies, tour promoters, etc.

After the first 10 months of the Faresaver Plan, which included periods of heavy traffic volume, i.e., Christmas, Easter and the Summer months, it was found that while the plan attracted a greater number of passengers, the increase in train miles required to handle the additional traffic contributed to an increase in cost in excess of the additional revenue provided.

In addition, wage rates and other costs continued their upward spiral. As a result, the passenger train deficit for 1964 amounted to \$26 million compared with \$24.7 million for the year 1963. The unsatisfactory results of the first 10 months led to the decision to increase fares on September 1, 1964, above the level of fares adopted in October, 1963, but still considerably below the fares which were in effect prior to that date between many points.

With a view to attaining the most productive level of fares in various areas, further adjustments were introduced effective August 1, 1965, and the results of these further experiments are presently being evaluated.

In a number of the submissions made to the Committee in Western Canada reference was made to increases in Canadian Pacific passenger fares. The Company has raised fares; it has had to raise fares in its effort to maintain and operate a viable passenger service, in the light of massive increases in material prices and labour costs. Undoubtedly some of these fare increases look to be substantial. This is because in 1963, in the unsuccessful Faresaver experiment, some fares were slashed anywhere from 35 percent to 50 percent.

Let us look at the fare between Revelstoke and Vancouver. In 1960 the one-way coach fare was \$14.45. After Faresaver in 1963, it was slashed to \$7.70, except on Fridays and Sundays. In 1965, it was raised to \$13.75, except on Fridays and Sundays. Here, therefore, the 1966 fare is lower than it was in 1960 and yet people complained to your Committee.

Other examples could be given that do not show such a startling result. In some cases fares are now higher than they were in 1960. For example, between Calgary and Edmonton. In 1960, the one-way fare was \$7.40. After Faresaver in 1963 it went down to \$4.50 and the present fare is \$9.70. The fare is still lower than the cost of driving a car between Edmonton and Calgary, is lower than the air-bus fare of Pacific Western Airlines and is higher than the bus fare and higher than the circuitous Canadian National route fare. It is still a transportation bargain.

Fares including sleeping car accommodation have also gone up but the method of establishing these fares has changed. Included in the sleeping car fare today is the provision for meals. Sleeping car accommodation on trains prevents high density utilization of cars and therefore the impact of increased costs, such as wages, has a greater unit effect. Few people recognize that a

compartment on drawing room on a train has the same relation to other accommodation as a suite in a first class hotel, and it is only realistic to price them accordingly. Suites and drawing rooms are for the fortunate few.

The lower berth fare between Calgary and Vancouver is \$34.50 Included in this is \$20.00 for transportation which leaves \$14.50 as the passenger's payment for the berth space and two meals. If an allowance is made for the value of the meals, the cost to the passenger is still less than the price of a medium priced hotel room.

With the Committee's knowledge of D.B.S. statistics in respect of food prices, I do not think we need comment on the increases in that field.

Canadian Pacific is not wedded to any fare level and, within the regulatory authority which fixes maximum fares, it will continue to adjust fares in the light of costs and other factors.

At page 53, Volume I, of transcript, the Company's brief reads:—

It is apparent that we will continue to operate "The Canadian" for years to come.

At page 559, Volume 9, of transcript, in the brief submitted by Mr. C. W. Brazier on behalf of the Province of British Columbia, he states:—

We derive very little comfort from the (foregoing) statement.

The previous assurances given by officers of Canadian Pacific in regard to the future of "The Canadian" should be re-emphasized. It has been drawn to the attention of all Operating and Traffic Officers of the Company that Mr. Crump has advised this Committee that:—

I expect to see "The Canadian" running for many, many pages. (Page 39, Volume 1).

The Dominion

At page 4 of the Brief submitted by Alderman Mark Dantzer on behalf of the City of Winnipeg, the following statement appears:

The withdrawal of the train ("The Dominion") was preceded by a long down-grading procedure.

Other parties in Western Canada have also suggested during these proceedings that the Company has down-graded "The Dominion" with a view to discouraging patronage.

This is absolutely wrong; the passengers deserted "The Dominion" long before its consist was reduced or its service curtailed. In order to set the record straight in this matter, we must begin in the mid-1950's. In 1955, 'The Canadian', with its new stainless steel equipment, was placed in service and, at the same time, the consist of "The Dominion" was greatly improved. In addition to the best of the standard Tuscan Red cars, the following new stainless steel equipment, identical to that being used on 'The Canadian', was added to "The Dominion" consist:

Park Dome car at the tail end of the train equipped with lounge and bar facilities

Chateau cars equipped with a variety of sleeping accommodation

Manor cars equipped with a variety of sleeping accommodation

Deluxe diners

Skyline Dome cars equipped with bar and lounge facilities for coach and tourist passengers

Deluxe coaches

The introduction of this new equipment was accompanied by a major merchandising effort on a continuing basis.

These concerted efforts contained the previous decline in patronage on "The Dominion" for the next two years, but in 1958 there began a resumption of the decline. In 1959 and 1960 the patronage was even lower than in 1958. However, it was not until the Fall of 1960, two years and nine months after this decline commenced, that the sleeping and dining car service was modified. In other words, in addition to 'The Canadian' during 1958, 1959 and most of 1960, "The Dominion" was being operated for the full year with a full complement of sleeping and dining car equipment.

The level of traffic being handled during the Winter of 1959-1960 was such that there was on board the train on the average only three to five passengers for each 'on train' employee. Patronage at that time consisted of approximately 50% daycoach passengers, and, of course, daycoach service was retained after 1960. In several months during that Winter (1959-1960) on some days total sleeping car passengers on the train leaving Winnipeg for the West numbered three and four (one per sleeping car).

It will be seen from the foregoing that, although full sleeping and dining car service was provided and the service was extensively merchandised, the travelling public did not need, and, therefore, did not want "The Dominion". In view of these extremely light carryings and the availability of space on 'The Canadian', the Company was obliged to curtail the sleeping and dining car accommodation provided on "The Dominion" in the Winter months commencing in September, 1960. At the time this curtailment took place, there was little or no objection to the service modification, because, in fact, the train was not being used as a transcontinental train.

It is obvious from the foregoing that the allegation that Canadian Pacific downgraded "The Dominion", which had the effect of driving people away, cannot be supported and is entirely without foundation.

For the five and one-half years since 1960, "The Dominion" was operated with a full sleeping car consist in the summer time with overnight sleeping service between Montreal and Toronto-Sudbury and between Fort William and Winnipeg in the Winter time. However, technological developments in the handling of head-end mail and express traffic necessitated that this traffic be removed from "The Dominion" in June, 1965. The extremely light carryings of this train due to the availability of other modes of travel coupled with the necessity for removing the head-end traffic resulted in the decision that its continuation was unnecessary and unjustifiable.

At page 50, Volume I, the company's brief makes the following reference to the effect on communities of discontinuance of rail passenger services:

Because of protests made at times that serious economic and social disabilities would inevitably follow for the communities concerned if

passenger train services were decreased or discontinued, the Company has carefully watched the results in large numbers of such communities, and in no instance has it come to its attention that the economic or social development of a community had been impaired by the reductions made in rail passenger services.

At page 319, Volume 6 of Transcript the Brief of the Canadian Railway Labour Executives Association reads of follows:

It is almost beyond comprehension to imagine that a decision to discontinue "The Dominion" could be made without giving any regard whatever to the social and economic impact upon the communities which are serviced by "The Dominion".

After adjustment of any change in the labour force in a particular community has been completed, there does not appear to have been any adverse effect on communities of an economic or sociological nature as a result of the discontinuance of "The Dominion". Adjustments in the labour force of the Railway industry are going on continually as is the case in all industries due to the period of change in which we live. These changes in the labour force insofar as the railways are concerned can be accepted with the least hardship in times of prosperity such as now when we are experiencing growth in freight traffic, piggyback traffic, Merchandise Services traffic, etc.

In submissions made to this Committee I am not aware of any weight of evidence of economic or sociological hardship which has resulted from the discontinuance of "The Dominion". It is understandable that in a very general way communities are reluctant to lose any transportation facility which they now have. It will be recalled that a few years ago it was necessary to eliminate completely rail passenger service in the Kootenays and it would be difficult to suggest that the growth of such cities as Penticton, Nelson, and Cranbrook has been stifled by the change in travel habits of the public. The policy of the Board of Transport Commissioners in respect of this feature is set out at Page 81 of the Board's judgment, dated January 7, 1966 in connection with "The Dominion" hearing and reads as follows:

In arriving at its decision the Board takes into consideration all relevant factors, including the population and economics of the area concerned, the need of the public for train service and the kind of service given, the volume of patronage by the public and the prospects for patronage in the future, alternative transportation services, revenues and expenses of the service, and the burden to the railway company of continuance of service and the effect on it of discontinuance.

The MacPherson Royal Commission on Transportation carefully examined this feature and the following quote from Page 46, Volume I of its Report outlines its findings in this regard:

Our prime responsibility, as we see it, is to seek out and recommend measures to eradicate the causes of inequities in the freight rate structure and to draw attention to those restrictions which, because of law or public policy, may prevent a more efficient operation of railways . . .

The Public, by and large, has already indicated its preference for other modes of travel, and except in a few instances where no alternate form of overland travel exists, we look forward to the time when the railways will be supplying passenger services only in those areas where they find economic justification for them.

At Page 498, Volume 8 of Transcript, the National Farmers' Union Brief reads as follows:

These figures, however, refer to total passenger service. In giving evidence to this Committee, an officer of the Company attempted to *estimate* the revenue, variable cost, and deficit attributable to "The Dominion". On page 80 of the Minutes of Proceedings and Evidence of this Committee, (Thursday, March 3, 1966), Mr. Sinclair, Vice-President of the C.P.R., *estimated* that the revenue from "The Dominion" was from 20 per cent to 25 per cent of the total passenger revenue for 1964.

By the way, in the C.P.R. brief, use is made of the 1965 figures. However, in attempting to estimate the deficit attributable to "The Dominion", Mr. Sinclair uses 1964 figures. He said and we quote "We have to go back to 1964, that was the full year." No further explanation was given by the Company, nor asked for by Members of this Committee. Now to return to the argument.

The results of "The Dominion" were filed with the Board of Transport Commissioners at the hearings held in "The Dominion" case. The percentages of revenue and expenses which were given to the Committee on March 3, 1966, (Page 80, Volume 2) were an answer to a specific question of Mr. Horner who asked for the percentage of Canadian Pacific passenger business which is made up by "The Dominion" service. Mr. Horner did not ask for the results of "The Dominion" as these were already available in the judgment of the Board of Transport Commissioners, January 7, 1966, copy of which was supplied to each member of the Parliamentary Committee.

Comparison of the results of "The Dominion" for the years 1964 and 1965 shows that revenues in 1965 were \$3.7 million lower than 1964 and variable cost for 1965 was \$5.1 million lower than 1964. The loss for "The Dominion" was, therefore, \$1.4 million less in 1965 than in 1964 despite higher wage costs and material prices. The reduction in the loss was due to two major changes which were made in the operation of "The Dominion" in 1965. One was the removal of the head-end traffic and its transfer to fast freight trains effective June 24, 1965. The other change resulted from the fact that trains No. 4 and 5, which were operated during the Summer season between Winnipeg and Vancouver in 1964 as an integral part of "The Dominion", were not operated in the Summer of 1965.

The reduction in the loss of "The Dominion" in 1965 accounted for two-thirds of the reduction in the system passenger train deficit in the same year as compared with 1964.

Brief submitted by the Province of Saskatchewan reads, at Page 2, as follows:

In Saskatchewan "The Dominion" consisted of only passenger coach travel which, nevertheless, provided an important local service to a substantial number of Saskatchewan residents. A local passenger service, therefore, should be maintained which is at least equivalent to that formerly provided by "The Dominion".

A similar proposal in respect of local service was made by other parties in Western Canada.

Canadian Pacific was requested during "The Dominion" hearings before the Board of Transport Commissioners to estimate the financial results of a one-car RDC service between Brandon and Medicine Hat. After study, revenues were estimated at \$49,900 and variable cost at \$441,800, leaving an excess of variable cost over revenues of \$391,900. The revenues and variable cost submitted by the Company were critically examined by the Board who finally concluded that even if the revenues were doubled to \$100,000 and the variable cost reduced to a bare minimum of \$350,000, the proposed RDC service could be expected to lose a quarter of a million dollars annually. In assessing this proposal, the Board commented as follows:

The observations and recommendations of the MacPherson Commission in respect of uneconomic rail passenger services where there is a reasonable alternative public highway between the principal points served by the railway can be related to the Saskatchewan situation.

Having regard to the size of the cities and towns and smaller centres along Canadian Pacific's main line in Saskatchewan, the contiguity of the Trans-Canada Highway, experience in respect of passenger carryings on "The Dominion" between Brandon and Medicine Hat and the trend generally towards travel by automobile and bus in preference to short and medium distance travel by rail, I am not able to find that a railiner service through Saskatchewan, as requested by the Government, would not be operated at a substantial loss or that the inconvenience to people along the line of not having local passenger train service would be such as to warrant the Board ordering Canadian Pacific to inaugurate a railiner service and bear its loss. I do not feel justified in ordering the Company to inaugurate such a new service in the circumstances.

The close proximity of the Trans-Canada Highway to the Canadian Pacific main line and the communities served by that main line is significant.

In respect of bus service, the President of the Greyhound Lines stated in his letter filed with the Board as follows:

There is no question in our mind that we could readily handle this traffic flow without undue burden and we are fully prepared, willing and able to supply additional services as required to handle such traffic on any and all sections of the route in question. We have currently on order many new buses for the year 1966 and our fleet will be further augmented with new equipment in 1967 to adequately handle the in-

creased passenger traffic that should result because of the Centennial Year and Expo '67.

I might further add that the existing service has never been loaded to capacity and there are presently available passenger seats on each and every schedule in the territory in question and this same condition exists at peak periods of Summer tourist travel.

In paragraph 10 of the brief submitted by the Province of Manitoba to this Committee, reference was made to Canadian Pacific Statement Number 3 (B.T.C. "Dominion" Hearing-Exhibit 25) "Revenue Passengers Carried on "The Dominion" by Conductors Run", copy of which was attached to this brief as Appendix I. Attention was particularly drawn to the 1964 passenger carryings shown therein between Brandon and Moose Jaw (43,861) and between Moose Jaw and Brandon (45,895). Mr. Mauro compared these carryings to the carryings shown on the same statement between Montreal and Ottawa (43,595) and Ottawa and Montreal (26,336). In this regard, Mr. Mauro indicated that he could not understand why discontinuance of "The Dominion" had been authorized while at the same time rail passenger train service was still provided between Montreal and Ottawa. However, Mr. Mauro failed to point out that the number of passengers shown on the statement as being carried between Montreal and Ottawa did not include passengers carried on other trains between those points. He apparently did not understand that operation of "The Dominion" between Montreal and Ottawa had been discontinued. The confusion may have arisen because for a few months before "The Dominion" was discontinued there had been a partial consolidation of "The Dominion" and a set of local trains between Montreal and Ottawa (Trains 232 and 235). The Board merely said that these local trains were not an issue in the hearings in respect of "The Dominion" and if the Company wished to discontinue these trains subsequently it should proceed by way of notice in the usual manner and upon such notice the Board would consider what action was appropriate.

The carryings referred to above between Moose Jaw and Brandon reflect all passengers on and through and on and off the train between those points and include long-haul traffic, tour traffic, as well as other traffic carried during the summer peak. In other words, these figures are entirely unsuitable for assessing the need for a local service between those points. In view of the unsuitability of these figures for that purpose, the Company last fall set up a study team to ride "The Dominion" between Brandon and Moose Jaw and make an actual count of local passengers using the train between these points. This study was carried on over a period of 4 weeks between September 9 and October 7, 1965. Results showed that in the first week the average passengers per trip were 5.7 westward and 4.6 eastward; in the second week, 8.9 westward and 4 eastward; in the third week, 6.1 westward and 4.4 eastward; and in the fourth week, 5.7 westward and 5 eastward. Surely these figures point to an overwhelming preference on the part of the travelling public for use of their own private automobiles on the Trans-Canada Highway or for bus when travelling between local points on the Prairies, and demonstrate the absence of an effective demand for local rail passenger service.

At Page 51, Volume I, of the transcript, the Company's brief states:

In the Summer season each year after 1960 the full consist of "The Dominion" was restored and the train was used to carry numbers of tourists who had been induced to travel this route by intensive solicitation and rates at less than cost. Those who used the train frequently complained regarding the coach and sleeping car equipment, which did not compare with that of "The Canadian", and had become completely outmoded. The cost of replacing this outmoded equipment with modern rail passenger equipment could not be justified.

At Page 558, Volume 9, of the transcript, Mr. C. W. Brazier, on behalf of the Province of British Columbia, states:

While it is true that the percentage of the travelling public carried by the railways has dwindled very significantly over the past years, there is a substantial number of Canadians who wish to—and do, whenever possible—travel on the railways in preference to other modes of travel. This is particularly noticeable from a study of the traffic during the height of the tourist season. Tourism today is an important economic factor for Canada, and we are particularly conscious of this in British Columbia. Railway passenger services are essential in order to develop and expand tourism.

Tour parties which were formerly operated on "The Dominion" from Winnipeg-Moose Jaw to Vancouver were handled in the older conventional passenger equipment and were frequently the cause of complaints due to the age and condition of the equipment in comparison with the new stainless steel cars, some of which were also operated in "The Dominion". Therefore, if this tourist traffic were to be continued, existing obsolete equipment would require extensive repairs and modernization. At the end of 1965 a review of the passenger car equipment situation was made and it was established that of the 137 cars, and 13 standby cars, required to operate a 17-car "Dominion" in the summer months, for the purpose of handling tourist traffic, 73 of these cars would require shop repairs involving a cost of \$1.3 million, and after one Summer season, a further 53 cars would require shop repairs costing an additional \$1 million. These repair figures, of course, do not include normal running repairs and maintenance during operation. This cost cannot be economically justified in the light of revenues provided by this tour traffic and the short two-month season. Furthermore, this older equipment could only be restored for operation for a few years.

In order to perpetuate the tour traffic, it would, in effect, be necessary to purchase new equipment which could not be justified even for operation on a full-year basis. Therefore, it is obvious that investment in new equipment which would be operated in a reinstituted "Dominion" or a second section of "The Canadian" for only two months per year would be a serious misallocation of resources.

Tourists in Western Canada during the coming Summer will be handled by a number of alternate means:

- (a) A number of tourists are being handled and will continue to be handled on "The Canadian".

- (b) Greyhound Bus Lines have secured additional buses and are planning to increase the frequency of service for that purpose.
- (c) Air Canada this Summer has announced a 28 per cent increase in transcontinental service with 20 per cent more economy accommodation, and in future years increases have been indicated for both Air Canada and Canadian Pacific Airlines.
- (d) Canadian National has announced 20 per cent more sleeping accommodation this Summer on its Supercontinental and Panorama trains.
- (e) A continuation of the trend on the part of the American tourist to use his automobile for his vacation. This is demonstrated by the fact that whereas in 1955, 79 per cent of the patrons at our Chateau Lake Louise Hotel in the mountains arrived by rail and only 21 per cent by road, ten years later, in 1965 only 42 per cent of the patrons arrived by rail and 58 per cent arrived by road. Arrivals at Banff Springs Hotel during these two years follow a similar pattern.

Operation of "The Dominion" in the Summer months would require use of approximately 25 diesel units which are now being used in the movement of freight traffic. As indicated in the Company's brief at Page 54, Volume I, of transcript, there remains in the Canadian Pacific inventory, only 28 diesel locomotives geared for passenger service which are currently being fully utilized. This represents a reduction of 26 diesel locomotives, which were converted from passenger to freight service in order to enable the Company to handle the extremely heavy volume of freight traffic. Furthermore, whereas at the beginning of March, 1966, as indicated in the Company's brief at Page 54, Volume I, of transcript, 50 diesel units were being leased, this number, as of the end of May, was reduced to 32 units, 18 having had to be returned to their owners in the United States. Including leased and branch line units, the Company now has 781 road freight diesel units in service compared with 746 in the Summer of 1965. This represents an increase of 4.7 per cent in the number of diesel units available for freight service and because of the upgrading of certain units an increase of about 7 per cent in the amount of horsepower.

As a result of the heavy grain movement and the substantial increase in other freight traffic, Canadian Pacific in the first five months of 1966 handled a total of 32.7 billion gross ton miles of freight compared with 27.9 billion in the corresponding months of 1965, an increase of 17.2 per cent. The number of gross ton miles of freight handled in the first five months of 1966 averaged 6.5 billion per month. On the basis of the grain targets set last week by the Wheat Board and in the light of other freight traffic demands, it is expected that an average of 6.6 billion gross ton miles of freight will be handled in the last seven months of 1966, an even greater volume than in the first five months. In regard to the important job of grain movement, indications are that the volume of traffic to be handled from the beginning of June, 1966, to the end of the crop year, July 31, 1966, will be over 20 per cent higher than in the same months of 1965.

In the light of the general economic conditions and an anticipated increase in freight traffic, the Company, in September, 1965, placed an order for 32 new diesel units. The first two of these units are expected to be delivered

next July, to be followed by eight in August and the balance to be spread over the four remaining months of the year. The volume of freight traffic which the Company will be required to move this Summer, is such that the diesel inventory will be taxed to capacity and, accordingly, any diversion of diesel units to passenger service must be made at the expense of the movement of freight traffic, including grain.

Skilled personnel, such as cooks and passenger equipment maintenance specialists, who formerly worked on "The Dominion" have been transferred to alternative employment. In view of the tight labour supply situation in Canada and with Canadian Pacific operating at a very high level of traffic, the necessary personnel to man and maintain additional passenger train services beyond those planned would be difficult, if not impossible, to secure in time for the Summer season of 1966. In any event, other services performed by the Company would be detrimentally affected.

The addition of one more transcontinental passenger train at this time will further increase the difficulties involved in handling the present high level of freight traffic on the Company's lines particularly between Calgary and Vancouver. In this area, the Company has this year accelerated a Capital Expenditure program designed to increase the capacity of the plant between these two points and the problems involved in meeting another passenger train on Subdivisions not yet equipped with C.T.C. will have a detrimental effect on our efforts to move the nation's commerce. More specifically, there is established between Calgary and Vancouver, a cycle of grain movement westward and a return movement of empty grain cars eastward and the operation of an additional passenger train would interfere with the effectiveness of this cycle. There would also be interference with the movement of freight traffic into and through Winnipeg Yards.

Canadian Pacific has not disposed of the cars which were used on "The Dominion" last Summer, as it was directed by the Board to hold this equipment until the Board gave its judgment relative to "The Dominion" in respect of the Summer of 1967. Accordingly, the equipment has been in dead storage for many months. Some of the cars have not moved for nearly a year. The usual shopping program for passenger car equipment during the past Winter was not undertaken. Therefore, time would be required before the cars could be placed in main line passenger service.

Most patrons plan their movement in the Summer some months in advance. It takes considerable time to prepare and institute advertising campaigns, contact travel agents and other sales agents to build up patronage for any service. As can be seen, if the Board of Transport Commissioners were on direction to reverse their decision regarding the operation of "The Dominion" adequate lead time must be provided and this is not now possible for the 1966 Summer season.

Use of Transportation Resources

At page 44, Volume I of Transcript, Canadian Pacific gave the following definition of effective demand:

Effective demand is the demand for a service at prices which meet the cost of providing that service. Services or goods that cannot be sold

for what it costs to produce them do not possess an effective demand, and their production is an economic waste.

At Page 500, Volume 8 of Transcript, the National Farmers' Union said that the Canadian Pacific definition was unsuitable to them and that the following alternative could be used:

Effective demand is a schedule of various quantities of a good or service that will be bought at different prices.

The National Farmers' Union failed to explain how their definition would apply to rail passenger service in Canada. It is obvious that their definition of effective demand is unsuitable in the context of an inquiry under the terms of reference as set forth by Parliament when this matter was referred to your Committee.

For any supply to exist in a market, the price must be such as to equate the demand with the cost of rendering service. If the price is less than that, the service will not be produced. While the National Farmers' Union allege that the supplier is in a near monopolistic position, this is clearly not the case and this has been demonstrated in the evidence submitted to your Committee. Competition in the passenger market is pervasive, and stems from airlines, buses, automobiles and other rail passenger service. In the context of a competitive situation, such as the one which exists in the passenger field, the definition of effective demand proposed by the Company is the only logical one.

The pervasiveness of competition is also germane to the matter of efficiency. Optimum allocation of resources in the economy requires matching of marginal costs with marginal revenues of various goods and services. The payment by people purchasing goods or using services of an amount at least equivalent to the cost, brings forth the production of these goods and services.

The continued references throughout the National Farmers' Union brief to Canadian Pacific holding a near monopolistic position have, possibly unintentionally, produced confusion and obfuscation.

At page 502, Volume 8 of Transcript, the National Farmers' Union brief reads as follows:

It is worth while to note that there are experts in the field of transportation economics who do not agree that under all circumstances the cost of providing a service does, or for that matter, should be the sole determinant of its price.

In support of its contention the National Farmers' Union quotes from Professor D. P. Locklin's book on Economics of Transportation; third edition; Irwin Inc., 1947. It is significant to note in examining these quotations that sections thereof have been omitted and that no reference was made to Professor Locklin's position that rates below variable cost lead to economic waste and economic inefficiency. For example, the last sentence of what was

stated to be a quotation from Professor D. P. Locklin's book which appears at Page 507, Volume 8 of Transcript reads as follows:

If the distinction between constant and variable cost has been fully grasped, it will be apparent that the preferential rates relieve rather than increase the burden on other traffic so long as the low rate traffic will not move at higher rates.

It is necessary to refer to Page 155 of the edition of Professor Locklin's book quoted by the National Farmers' Union. Your attention is directed to the following:

If the distinction between constant and variable expenses has been fully grasped it will be apparent that preferential rates relieve rather than increase the burden on other traffic if two conditions are fulfilled. These are that the rate must more than cover the direct costs; and that the traffic will not move at higher rates. When these conditions are fulfilled preferential rates are of benefit to all concerned. As will be pointed out in a later chapter, however, less-than-cost rates that divert traffic from one form of transportation to another may result in economic waste, and are sometimes inconsistent with attempts to coordinate all forms of transportation and assure each form of transport that traffic which it is best able to carry.

The quotations from Professor D. P. Locklin's book used by the National Farmers' Union which appear at pages 502 and 506, Volume 8 of Transcript, are shown in full below and the portions omitted from the National Farmers' Union brief are underlined:

The most common criticism is that the low rates on low-grade traffic result in higher rates on other traffic. The low-grade traffic, it is alleged, is subsidized by higher rates on the high-grade traffic. The favoured consumers are considered paracitic on other consumers. Of course, it is true that if some traffic is carried at less than average cost, some traffic must be charged more than average cost. But the implication that the low rates on some traffic mean that other traffic must be charged more than it otherwise would have been is entirely erroneous. If the distinction between constant and variable expenses has been fully grasped, it will be apparent that preferential rates relieve rather than increase the burden on other traffic if two conditions are fulfilled. These are that the rate must more than cover the direct costs; and that the traffic will not move at higher rates. When these conditions are fulfilled, preferential rates are of benefit to all concerned. As will be pointed out in a later chapter, however, less-than-cost rates that divert traffic from one form of transportation to another may result in economic waste, and are sometimes inconsistent with attempts to coordinate all forms of transportation and assure each form of transport that traffic which it is best able to carry.

The theory of railway rates which we have developed involves three main propositions. The first is that the motive to discriminate in the sense of charging less-than-cost rates is to be found in the large mass of constant expenses. If all expenses were variable, there would be no less-than-cost rates. *The second proposition is that discriminating rates would not continue under real competition and that therefore an element of monopoly or absence of real competition is a further essential in the explanation of discriminating rates. **It is essential to note that although discriminating railway rates would not exist under real competition, the presence of monopoly is not a sufficient explanation of discriminating rates, since in the absence of overhead costs there would be no downward discrimination in rates although there might be discrimination upward. The third proposition is that even under monopoly conditions and in the presence of overhead costs discrimination could not be practiced if the demand prices for different transportation services were not independent of the price at which other transportation services are sold.

* Except where true jointness of supply exists as in the case of back-hauls.

** Again with the exception of cases in which true jointness of supply exists.

There are many quotations on this point from Professor Locklin's book which appear to have been overlooked by the National Farmers' Union and which express views entirely contrary to the concept developed in their brief. Some of these are:

If a particular unit of traffic will not move unless charged a low rate, it is profitable for the railroad to quote a low rate provided the variable or 'out-of-pocket expenses' are covered. If the railroad can get something over the variable expense this item of traffic is profitable. (Pages 138-9)

The conclusions to be drawn from these studies are that more attention should be paid to the long-run behaviour of costs in making rates. (Page 162)

To sum up, the National Farmers' Union brief has attempted to turn Professor Locklin into an economist who deals exclusively in demand factors, without referring to the cost of production. This is clearly not the case with Professor Locklin or with any other knowledgeable transportation economist.

At Page 525, Volume 8 of Transcript, the National Farmers' Union submitted the following recommendation for the consideration of your Committee:

The Canadian Pacific Railway Company should be nationalized immediately, and its railroad and communication systems integrated with those of the Canadian National Railways.

The MacPherson Royal Commission gave consideration to a similar recommendation, and in so doing, expressed its views in respect of competition in transportation and the presence of public and private ownership in transporta-

tion in Canada. Your attention is drawn to Page 275, Volume II, of the Commission's report, where it states:

The nature of the transportation industry, in the light of the role we believe it must play in Canadian economic development, affirms our conviction that there are benefits to be derived for the nation by the extension of competitive forces in transportation. Furthermore, we are convinced that the benefits of competition to the nation are substantially secure under the incentive of profit maximization and that this incentive can be made to work satisfactorily under a system of mixed private and public ownership, so long as publicly-owned transportation companies are instructed, permitted, and regulated to work under the criteria of normal practices.

and also to Page 283 where it states:

In our view complete nationalization of any mode of transport in Canada is not the best way to attain efficiency of services and optimum allocation of resources in transportation without the complete abandonment, so far as it is concerned, of the principles of profit maximization and dependence upon the market choices of shippers.

On March 2, 1966, President L. B. Johnson sent to Congress a message on transportation accompanied by proposed legislation designed to implement the broad and essential policy expressed in his message. President Johnson's message emphasized the fact that:

The United States is the only major nation in the world that relies primarily upon privately owned and operated transportation.

This National Policy, the President pointed out, has served the United States well and must be continued and strengthened. In this regard, the Minister of Transport, in his speech given at Winnipeg on April 27, 1966, in setting out the basic objectives of National Transportation Policy, stated:

Co-ordination does not require monopolies of all transport services, either public or private.

To ensure the best transport services at the lowest cost with reasonable choice, reliance should be placed on competition where it exists in sufficient volume and strength between different carriers and different types of transport.

Canadian Pacific disagrees fundamentally with the concept proposed by the National Farmers' Union. It is its view that the interests of the Canadian people are best protected, and with the least burden, by a system which provides for competition by private enterprise in the National Transportation field.

Canadian Pacific does not believe that socialism in transportation or, for example, in farming, in banking or many other fields, is in the best interests of Canada. In fact, it agrees with the statement made recently by Lord Beeching, former Chairman of the British Railways Board, in a recent interview in Montreal, reported in the Montreal Gazette as follows:

I don't think nationalization solves problems. It merely alters the frame-work in which they must be solved.

He added:

There is a general climate of opinion in Britain against nationalization. People have seen that it doesn't work.

At Page 501, Volume 8, of Transcript, the National Farmers' Union brief quotes an excerpt from Pages 11 and 12 of Volume II of the MacPherson Royal Commission's report, which reads as follows:

Should it be apparent that a firm providing services of transport is unable to live under a policy which seeks to attain maximum efficiency, we state that the consequences of technology or economics must not be set aside to preserve any historical or preconceived ideas about the proper composition of the transportation industry.

The Farmers' Union then goes on to say that it heartily endorses this philosophy. It is surprising in effect that the Farmers' Union can endorse the philosophy of the MacPherson Royal Commission in view of the general conclusions of its brief. It appears that the Farmers' Union has misunderstood the philosophy as developed by the MacPherson Royal Commission in that section of its report. In order to understand what the Commission had in mind, it is necessary to review the material which led to this statement by the MacPherson Royal Commission quoted in the Farmers' Union brief, and I think that it would be useful if I read the two pages preceding that statement:

The appearance of a variety of modes of transport in active or potential competition for the provision of transportation service gives to individuals, businesses and industries a range of choice in standards of service and price which cannot help but improve the efficiency of production. In fact, so important is transportation to production that it is possible to take the view that the benefits which flow from plentiful and low-priced transportation are great enough to make it relatively immaterial whether the transportation function is discharged with maximum efficiency. Subscribers to this point of view would provide through public investment the conditions for a plentiful supply of all forms of transport service at prices which are not intended to cover the total cost of providing the service.

It must be acknowledged that this is an acceptable philosophy of transport if it could be demonstrated that the benefits which would flow to industry and the nation were greater than the inefficiencies which would result. Nothing in our experience, nor in the investigations we have made, lead us to conclude that the alleged benefits of such a scheme could be real or equitable. It amounts, in our opinion, to a scheme for income redistribution to the immediate benefit of users of freight services at the expense of the general taxpayer. We have rejected this philosophy on the *prima facie* grounds that it leads to inefficiency in the provision of transportation service and removes from the individual entrepreneur one responsibility for assessing the true costs of his production decisions. Individual entrepreneurial decisions which attend the

productive process in a free enterprise economy lead to over-all efficiency when the entrepreneur's responsibility for the decisions is greatest.

Accepting these principles of individual responsibility as a basis for our conclusions, we also recognize that the nation, through its parliamentary institutions, may at any time and to any extent decide that the transportation costs to a given industry or a given region are too onerous. In these cases assistance has been extended and in some instances is still being extended. Decisions so to do are made for many reasons beyond the sphere of transportation considerations and do not fall within the ambit of our Terms of Reference. But, as a principle we are forced to adopt, when transportation assistance is so used it should be applied with the most judicious care to see that the objectives of the policy are not achieved at the expense of transportation efficiency. We are convinced that efficiency in transportation is essential to total efficiency in the nation. The costs of distribution are already a high part of total production cost. Therefore, it is necessary that public policy shall do what it can to promote the efficiency of transport services.

The Objective of National Transportation Policy

Public policy in Canada should seek to create an efficient transport system. This we define as the objective of the National Transportation Policy. Opinions generally expressed before us concur in this definition. This objective we regard as of more importance than the preservation of any single mode of transport, or of any particular company offering the services of transport. Should it be apparent that a firm providing services of transport is unable to live under a policy which seeks to attain maximum efficiency, we state that the consequences of technology or economics must not be set aside to preserve any historical or preconceived ideas about the proper composition of the transportation industry.

The foregoing definition of the MacPherson Royal Commission's objective of the transportation policy is remarkably similar to that expressed by Mr. Daniel P. Loomis, President of the Association of American Railroads, in his testimony on H.R. 13200—a bill to create a Department of Transportation in the United States which was presented at the hearing before the Subcommittee on Executive and Legislative Reorganization of the House Committee on Government Operations on May 17, 1966.

Mr. Loomis quoted a message on transportation which President Johnson sent to the Congress on March 2, 1966, which summarized the objectives to be achieved by the proposed legislative and the vital role to be played by the Federal Government in the following language:

We must secure for all our travellers and shippers the full advantages of modern science and technology.

We must acquire the reliable information we need for intelligent decisions.

We must clear away the institutional and political barriers which impede adaptation and change.

We must promote the efforts of private industry to give the American consumer more and better service for his transportation dollar.

Mr. Loomis then went on to say:

No nation, even one so well endowed as our own with human and material resources, can realize its full potential unless it makes the most effective use of those resources. In other words, a nation must employ its resources so as to maximize benefits with a minimum of economic costs, whether or not the costs are incurred privately or publicly, and this requires careful and balanced consideration of the alternative means which are or could be made available, and in what proportions.

and further:

It is not enough simply to go on adding to the sum total of transportation capacities on the mistaken assumption that the more that is supplied of whatever kind the stronger will be the resulting national transportation system. There is no economic strength in mere multiplicity of transportation facilities.

In the speech which the Minister of Transport made in Winnipeg Wednesday, April 27, he outlined the basic objectives of a National Transportation Policy after having cited the contributions made in this regard by the MacPherson Royal Commission.

It is significant that the objectives of a National Transportation Policy as outlined by the Minister of Transport as quoted below are generally in accord with those set out by President Johnson in his message on transportation:

Apart from the contributions of the MacPherson Commission, the following basic objectives should be included in a new national policy:

Because transport enters so largely into all costs in Canada, all avoidable waste in providing transport should be prevented.

Waste and inefficiency can be avoided only by the appropriate co-ordination of all forms of transport under federal jurisdiction.

Co-ordination does not require monopolies of all transport services, either public or private.

Co-ordination and the avoidance of waste to require the application, wherever feasible, of commercial principles to the provision of transport services, even where they are provided out of public rather than private capital resources.

The type of transport services best suited to each particular requirement should be used to meet that requirement.

To do so, Canada must take advantage of advances in technology in transport and the most modern equipment.

Excessive costs must be avoided by eliminating unneeded services and obsolete methods and equipment.

To ensure the best transport services at the lowest cost with reasonable choice, reliance should be placed on competition where it exists in sufficient volume and strength between different carriers and different types of transport.

Competition at non-compensatory rates should not be allowed to destroy continuing competition.

Where effective monopoly exists, there must be means of public regulation to ensure availability of necessary services at reasonable rates.

To protect the taxpayer and control costs, users of transport should pay the costs, wherever this is economically and socially feasible.

Where subsidies are needed to provide essential facilities or services, the subsidies should be limited in time to a developmental period, or to clearly defined special situations or services which can be segregated and measured financially.

Except where subsidies are required in the public interest, transport facilities and services should be provided at the cost of the public treasury only in cases where the use is so general or the cost of collecting user charges is so great that support from the treasury is really the most economical method of paying for the facility or service.

Canadian Pacific reiterates the views which it expressed in its presentation at Page 67, Volume 1, of transcript:

Perpetuation of passenger services which are no longer patronized or the diversion of traffic from other viable media by the introduction of abnormally low fares to increase patronage can only result in further increases of the rail passenger deficit inevitably borne by the general public. This is most certainly a misallocation of transportation resources for which there is no justification and it results in a disservice to the interests of the Canadian people.

Perpetuation of such services is contrary to proper use of transportation resources, as so clearly enunciated by the MacPherson Royal Commission, President Johnson of the United States and the Minister of Transport.

CANADIAN PACIFIC

Ian D. Sinclair

S. M. Gossage

June 7, 1966.

APPENDIX A-5

361 Magog,
La Salle, Quebec,
May 31, 1966.

The Honourable Mr. Raymond Roch,
Member of Parliament, Jacques Cartier,
Ottawa, Ontario.

My dear Representative;

During February of this year, I reserved accommodation on C.P.R.'s Canadian to Calgary. Today, I reconfirmed these reservations and was informed rates will be much higher than originally quoted. Below listed are the rates quoted in February and those received today:

<i>To Calgary</i>	<i>February</i>	<i>May 31, 1966</i>
Drawing Room; 2 adults, 2 children	\$ 206.50	\$ 260.50
Bedroom; 1 adult, 1 child	107.50	152.50
<i>Return to Montreal</i>		
Lower Berth; 1 adult	68.50	79.50
Drawing Room; 2 adults, 3 children	230.00	286.00
	<hr/>	<hr/>
	\$ 612.50	\$ 778.50
		<hr/>
		-612.50
		<hr/>
	Increase of	\$ 166.00

If I wish to travel to "The Stampede" this year, I must accept these new rates or cancel plans as neither C.N.R. or Air Canada can accommodate my party. As a point of interest C.N.R.'s rates this summer for the above accommodations would be between \$625.00 and \$650.00, significantly lower than C.P.R. This seems to be another classic example of C.P.R.'s interest in Passenger service.

I would like to know why, in my particularly case, C.P.R. was granted a 26% rate increase and secondly, why they are not compelled to publish new rates. Certainly if I had been informed of these ridiculous rate increases I would have travelled C.N.R., but now my alternative is C.P.R. or not at all. Maybe this will teach me to never again plan a Canadian vacation for my family.

Respectfully yours,
Desmond P. White

c.c. Mr. N. R. Crump, Chairman of the Board, C.P.R.
c.c. Mr. Warren, General Passenger Traffic Manager—C.P.R.

APPENDIX A-6

BOARD OF TRANSPORT COMMISSIONERS FOR CANADA

Economics and Accounting Branch

File: E-365.32

Ottawa 4, June 2, 1966.

Mr. Joseph Macaluso,
Chairman, Standing Committee on
Transport and Communications,
House of Commons,
Ottawa, Ontario.

Dear Mr. Macaluso:

Further to my letter of yesterday, it has occurred to me that some of the material which I had prepared in order to assist the Committee may be useful to you at this time, if, as noted in the Press, you are preparing an interim report prior to completing your hearings.

The material which I am enclosing contains numbered sheets designed for my own reference if I were questioned along the lines indicated by the hearings, i.e.:

2. Testing the reasonableness of "The Dominion" cost estimates.
- 2A. Reducing "The Dominion" loss by curtailing service.
3. Disallowances made by the Board in "The Dominion" case.
4. Costs and revenues of "The Dominion" on a daily basis for 10 operating units.
- 4A. Inter-city travel trends 1949-1965.
9. Railway cost accounting in Canada (a general non-technical explanation).
- 9A. Attachments re depreciation, costs in abandonment applications, and Chief Commissioner's letter to railway presidents re Board organization for costing.
11. Memorandum re Professor Berg's suggestion on avoidable costs.

The missing numbers represent other materials such as annual reports, to which I might refer during a hearing. I have also enclosed four unnumbered sheets:

- (1) Names of Board witnesses.
- (2) Definition of "effective demand".
- (3) Variable cost disallowances made by the MacPherson Commission.
- (4) Memorandum regarding figures which were wrongly presented in the Manitoba brief during Committee's Winnipeg sitting.

Yours very truly,

Malcolm Burbash,
Director.

(The services of Ridsted are used by the Board under authority of an order in council. This firm played a major part in developing the Board's Uniform Classification of Accounts for Railways.)

Effective Demand

- The desire to buy coupled with the ability to pay.
- When the word "demand" is used in economic writings, effective demand is usually assumed.
- from Dictionary of Economics, by Sloan & Zurcher. Published in United States in 1953.

BOARD OF TRANSPORT COMMISSIONERS FOR CANADA Economics Accounting Branch

Files E-1600

June 1, 1966.

Mr. Rod Kerr, Q.C.,
Chief Commissioner.

Re: Variable Cost of Statutory Grain Movement

You asked me to prepare a short statement regarding reductions which the MacPherson Commission made in Canadian Pacific's submission on the variable cost of the statutory grain movement. The Commission's comment in this matter is found in Volume I of its report, on page 63, an extract of which is attached. You will note that the Commission made two significant changes in the variable cost figures of the railways.

In order to determine the magnitude of the reductions in Canadian Pacific figures, I checked Volume III of the Commission's report where the results of staff studies are shown:

- (1) The net amount shown for Canadian Pacific lines "solely related" to grain was \$6,255,360.
- (2) The study figures indicate that a reduction of about \$6.1 million was made for "cost of money".
- (3) There were other smaller adjustments made by the Commission related to the use of solid grain trains, multiple car switching and idle car time.

The preliminary estimate of variable cost was approximately \$37.6 million, which represented a reduction of \$14.1 million from the variable cost of \$51.7 million, advanced in Canadian Pacific's argument before the Royal Commission on February 10, 1961. As aforementioned, the two significant changes made by the Commission were in respect of solely related lines and cost of money.

M. E. Burwash,
Director.

EXTRACT FROM REPORT OF
MACPHERSON ROYAL COMMISSION ON TRANSPORTATION,
VOLUME I, PAGE 63

"In considering variable costs, the Commission made two significant changes in the railway figures.

In the first place, the railways included in variable cost maintenance costs attributable to the maintenance of miles of track said to be "solely related" to grain. We were impressed, during our hearings, with evidence which indicated that many of these lines are in fact carrying very light traffic. We have said above that we consider the existence of light density lines of importance in the group of problems facing Canadian shippers and railways. Recommendations to meet this problem have been made. In our present considerations we have, therefore, removed this expense from the costs applicable to the carriage of export grain.

In the second place, in both the variable cost and the constant cost, the railways included an item which they termed the "cost of money". This item was tantamount to interest on the investment required for the transport of grain (variable cost) or of investment which could not be assigned to particular activities (constant cost). The railways asked for an amount of approximately six per cent after income tax or something over ten per cent before income tax. In considering this item we have concluded that the rate of return on grain should not be different from that which the railways could earn on rail investment generally under the permissive earnings formula of the Board of Transport Commissioners. With this in mind, appropriate adjustments were made."

RECORD ROOM TRANSFER FILE NO. 27563.479

FROM	TO		
Chief Commissioner.....	X	Draw Order.....	
Assistant Chief Commissioner.....	X	For your information.....	X
Deputy Chief Commissioner.....		For Report.....	
Commissioner Woodard.....	X	Hold for.....days.....	
Commissioner Irwin.....		What action should now be taken.....	
Commissioner Kirk.....		Write as suggested.....	
Secretary.....		Take no further action.....	
General Counsel.....		Hold until we hear again.....	
Director of Engineering.....		No answer necessary.....	
Director of Traffic.....		Ask for a reply to your last letter.....	
Director of Operation.....		For Approval.....	
X Director of Economics and Account- ing.....		Board Meeting Agenda.....	
Accountant.....		File Away.....	
Record Room.....			
May 25, 1966.			
Date.....			

Re: Province of Manitoba (Mr. Mauro) Brief
to Standing Committee

The Confused references to figures in "The Dominion" judgment as contained in the brief presented by Mr. Mauro were drawn to my attention by Mr. Griffin. I have prepared the attached memorandum in order to show the proper relationship between the figures in paragraphs 17, 18 and 37 of the Manitoba brief.

M. E. Burwash.

MEB:ht
Attach.

Comment on Province of Manitoba Brief
Paragraphs 17, 18 and 37 as presented
to Standing Committee on Transport and Communications
in Winnipeg on May 13, 1966

A reading of paragraphs 17, 18 and 37 of the brief presented by Mr. Mauro shows that he failed to distinguish between the cost estimates for three different operations of Canadian Pacific, namely:

1. Variable Costs for the year 1964 when "The Dominion" operated for its last full calendar year with head-end cars, sleepers, diners and coaches, as per Exhibit No. 4, page 47 of the judgment . . . \$20,828,166.

2. Variable Costs for the projected year 1965-66 when "The Dominion" was operating with two coaches and a buffer car for the greater part of its run, as per Exhibit No. 5, page 48 of the judgment . . \$7,732,100.

3. Variable Costs for the summer only of 1966 and 1967 when "The Dominion" would operate with a full passenger consist comparable with that of the summer of 1965, as per page 87 of the judgment:

Variable Costs for summer of 1966 \$7,744,000

Variable Costs for summer of 1967 \$7,337,000

The above explanations are set out in the Board's judgment on pages and in paragraphs adjacent to those from which Mr. Mauro quoted.

In paragraph 37 of the Manitoba brief Mr. Mauro told the Committee that the Board had "reduced the CPR's alleged costs from \$20 million to \$6 million and the deficit from \$9.6 million to \$3 million" He suggested that evidence "indicated cost exaggerations of 300 percent". This is wrong.

The Board's finding did not refer to the 1964 operation when Variable Costs were \$20,828,166 and the deficit was \$9,673,932. It referred to the projected year for which the Company had estimated Variable Costs of \$7,732,100 and a deficit of \$4,880,000. The reductions which the Board made were based on maximum disallowances in order to establish the bare-bones cost of the operation after September 7, 1965. The reductions totalled 20 percent.

In paragraph 18 of the Manitoba brief Mr. Mauro made reference to page 88 of the Board's judgment, where it was found that there would be a deficit of more than \$3,000,000 each year if the train operates in the summers of 1966 and 1967 (with its 1965 summer consist). This was a summer only deficit when the train operates with a full consist. It should not be confused with a deficit of the same amount which would accrue for a projected year with reduced consist the year around.

B.T.C. Economics and Accounting Branch.
May 25, 1966.

MEB:ht

M. E. Burwash.

TESTING THE REASONABLENESS OF "THE DOMINION" COST ESTIMATES

Railways Required to Support Cost Submissions

The application of Canadian Pacific to discontinue "The Dominion" represented, in terms of dollars, a major cost submission for Board consideration. The total variable cost for the year 1964, with extra consist during the Summer, was estimated to be \$20.8 million; it was reduced to \$7.7 million for a projected year with a year around basic consist of two coaches and a buffer car. In principle, however, the submission was similar to previous ones involving reductions in passenger train services. The railways are required in such cases:

- (1) To file information needed by the Board in order to test the reasonableness of the estimates.
 - (2) To present supporting oral evidence during the hearing.
 - (3) To have working papers available for examinations by Board staff.
- These requirements were met in "The Dominion" case.

Board Examination of Estimates

- (a) "The Dominion" hearings were attended by the Board's Director of Operation and by the Director of Economics and Accounting. The railway cost submissions were examined in these two Branches of the Board, and in the case of some items assistance was received from other Branches of the Board.
- (b) The Economics and Accounting Branch has an establishment of 27 positions, 15 of which are at the professional level, Economists, Accounts and Statisticians. The Board does not parallel the costing activities of the railway companies. To do so would not only require larger staff, but it would be unrealistic for the regulatory body to maintain the extensive costing records and statistical breakdowns which railways require for day to day costing.
- (c) It is not practical for the Board to make direct contact with railway superintendents or yard foremen to check on recent changes which would affect costs and require adjustments in order to reflect current operating practices. The railways, however, require this kind of contact with day to day operations in order to do good costing.
- (d) While the Board's costing staff is not as close to day to day operations as costing staff of the company, the Board has available adequate records for checking the reasonableness of the railway cost submissions. The Board has a history of the cost estimates submitted in previous cases, and it is also aware of the range of reasonableness within which each item of cost should normally fall.
- (e) If the Board is not satisfied that a cost estimate is reasonable, it makes sufficient disallowance to insure that the amount allowed will not exceed the expense that would be saved if the application were approved.

Four Tests Made By The Board

1. Testing the method employed

Good costing requires the application of sound costing principles. The Board is in a favoured position to compare the costing methods employed by the two major Canadian railroads, and also those employed by United States railroads appearing before the Interstate Commerce Commission. It also keeps up to date on costing methods used by companies other than railway companies.

Some of the disallowances made by the Board are because the railway has used a method which may be acceptable for rate-making purposes or for subsidy purposes, but which tends to overstate the saveable expenses from discontinuance of a passenger train, except perhaps on a long term basis, or if a large part of the passenger service were being discontinued.

2. Testing the unit costs

The Board prescribes a Uniform Classification of Accounts for Railways, and a continuous programme of field examinations is carried on by the Board examiners.

When cost submissions are being analyzed, checks are made to insure that the unit costs are based on the proper accounts and that accounting allocations are not contrary to the principles of the Classification. Tests are made to insure that the unit costs represent only the saveable portion. If a system average is used, does it apply to the case at hand? If adjustments were made, were they such as to produce a representative unit cost?

3. Testing the service units

In analyzing an application to abandon a line of railway or discontinue a passenger train, staff estimates are made of the service units involved, such as car miles and train miles. These are used as a check against the service units reflected in the cost submission.

4. General knowledge test

The Board's staff, not only in the Economics and Accounting Branch but also in the Operating, Engineering and Traffic Branches, represents a combined pool of knowledge of the operations of many railways. This is of assistance to the Board in assessing the reasonableness of a company's cost estimates, and in detecting instances where further examination is required and where adjustments should be made for purposes of the Judgment.

In "The Dominion" case the Board made maximum disallowances in the railway estimates. Reference to this fact was made at page 84 of the Judgment. The maximum disallowances were based on the records of disallowances in past cases and on the evidence and railway working papers in "The Dominion" case.

The disallowances which the Board made were directed toward the lower cost estimate of \$7.7 million for the reduced operation rather than the higher estimate of \$20.8 million for the year 1964 when there was a full Summer consist. The "bare bones" cost for purposes of the Judgment was set at \$6 million, and the measure of the annual loss was \$3 million rather than \$4.8 million as estimated by the company.

A detailed explanation of the disallowances made by the Board in "The Dominion" case is the subject of a separate memorandum.

Economics and Accounting, File E-407,
May 3, 1966,
MEB:W

REDUCING "THE DOMINION" LOSS BY CURTAILING SERVICE.

During 1964 "The Dominion" operated with head-end traffic and carried additional consist in the Summer months. During 1965 head-end equipment was removed and after September 7, 1965 the consist was reduced to two coaches and a buffet car, plus a buffet parlour car between Ottawa and Montreal and a sleeper Montreal-Sudbury, Toronto-Sudbury and Fort William-Winnipeg. The financial results were:

	Year 1964	Projected Year After Sept. 7, 1965	Reduction
Revenues	\$11.1 Million	\$2.8 million	\$ 8.3 million
Variable Cost	20.8 Million	7.7 million	13.1 million
Loss	\$ 9.7 million	\$4.9 million	\$4.8 million

The curtailment in service resulted in \$8.3 million less revenue per annum while the variable cost was reduced by \$13.1 million. The annual loss was thereby reduced from \$9.7 million to \$4.9 million.

The Board, in considering the lower loss operation after September 7, 1965, made disallowances in some of the cost estimates and found that the continuing loss for the curtailed service would be a minimum of \$3 million per annum.

The extent of the reduction from the full "Dominion" of 1964 to the projected "Dominion" after September 7, 1965, is shown by a comparison of operating statistics for the two 12-month periods:

	Year 1964	Projected Year After Sept. 7, 1965	Reduction
Train Miles	2,631,434	2,293,003	13%
Passenger Car Miles	33,835,034	7,632,419	77%
Gross Ton Miles (000)	2,300,782	482,179	79%
Yard Switching Miles	95,238	27,221	71%

The reduction in train miles was only 13% although the train which operated after September 7, 1965 had a much smaller consist. The smaller consist is reflected in the reduction of more than 70% in the other service units.

Variability of Costs

About \$4 million of the 1964 costs may be said to vary generally with the train miles. The remaining \$16.8 million would vary with other service units such as car miles. To illustrate this variability we may compute an approximate weighted average:

Train Miles	\$ 4 million times 13 % reduction equals \$.52 Million
Car Miles	<u>\$16.8 million times 77 % reduction equals \$12.94 Million</u>
Weighted	<u>\$20.8 million times 64.7% reduction equals \$13.46 Million</u>

The above weighted reduction of about 65% may be compared with the reduction in the railway variable cost estimate from \$20.8 million for the year 1964 to \$7.7 million for the projected year, which is a reduction of \$13.1 million, or 63%.

Head-End Traffic

The annual loss was reduced by \$4.8 million. About \$1 million of the over-all reduction in the annual loss resulted from taking off the head-end traffic. This had produced some \$6 million in revenues and had accounted for about \$7 million in expense.

Additional Summer Consist

The balance of the reduction in the annual loss was \$3.8 million. This may be associated with not increasing the Summer consist in order to accommodate tour traffic and other additional Summer traffic. In the past this had resulted in additional revenues of about \$2.3 million but had added some \$6.1 million to the variable cost. The Board gave consideration to a Summer only operation for 1966 and for 1967 and found that it would result in a minimum loss of \$3 million for each Summer period.

Economics and Accounting, File E-407,

May 10, 1966.

MEB:W

File E-365.32

DISALLOWANCES MADE BY THE BOARD IN
"THE DOMINION" CASE

The variable costs for operation of "The Dominion" with Winter consist and for a full year, as estimated by Canadian Pacific, are listed below. In a second column are listed the disallowances made by the Board. The third column expresses the disallowances as a percentage of the Company estimate.

	Company Estimate	Board Disallowance	
	\$	Amount	Per cent
	\$	\$	%
1. Wages of Train and Engine Crew	1,607,200	—	—
2. Fuel	461,700	—	—
3. Water, Lub. and Eng. Exp.	196,800	—	—
4. Train Other Expenses	551,600	151,000	27
5. Yard Switching Expenses	70,400	25,000	35
6. Station Expenses	146,200	—	—
7. Sleeping Parlour and Buffet Car ..	93,800	10,000	11
8. Other Transportation	348,500	100,000	29
9. Locomotive Repairs	662,600	—	—
10. Passenger Car Repairs	977,800	—	—
11. Road Maintenance	562,600	250,000	44
12. Traffic Gen. incl. Pensions, U.I.C.	995,700	380,000	38
13. Depreciation—Locomotives	177,900	—	—
—Passenger Cars	177,400	—	—
14. Cost of Money—Road	245,500	245,500	100
—Locomotives	134,600	134,600	100
—Passenger Cars	248,000	248,000	100
15. Adjustment to Wage Rates	133,800	25,000	19
	<u>7,732,100</u>	<u>1,569,100</u>	<u>20</u>

On page 84 of the Judgment it was stated "... I have not considered it necessary to require the Board's staff or myself to make the further detailed study that would be necessary in order to determine more precisely the items and total of allowable expenses, revenues and deficit."

This statement referred to the fact that the Board has a history of past cases in which disallowances were made, and the Board is aware of the range within which railway estimates should normally fall for the various categories of expense. A detailed study in each case will establish the specific disallowance within such range, but in this case the Board used maximum disallowances in order to determine the saveable expenses on a "bare bones" basis.

Explanations of the estimates wherein disallowances were made follow:

4. Train other expenses

Claimed	\$551,600
Disallowed	\$151,000
Allowed	\$400,600

Company Explanation

"The cost was first developed for total passenger service on the basis of car miles for cleaning, heating, lighting, lubricating, icing and watering, and air conditioning cars and on the basis of train miles for the other train expenses. An average cost per passenger car mile was computed and this cost was applied to the miles run out by the passenger cars of "The Dominion".

Board Disallowance

The Company estimate is based on assigning to "The Dominion" a share of the system train other expenses based on the relationship of car miles performed by "The Dominion" to system passenger car miles. The Board is not satisfied that the amount so assigned will be fully realized as a saving when cutting back this part of the system passenger service. A disallowance of about 27% has been made.

5. Yard switching

Claimed	\$70,400
Disallowed	\$25,000
Allowed	\$45,400

Company Explanation

"The cost of yard switching was developed on the basis of the actual hours required for the switching of cars on "The Dominion" at the various terminals where switching is required and the average cost per yard switching hour for the system."

Board Disallowance

The evidence which was given did not satisfy the Board that in this case the average unit cost for the system would in fact apply. The Board disallowance represented 35% of the estimate.

7. Sleeping, parlour and buffet car

Claimed	\$93,800
Disallowed	\$10,000
Allowed	\$83,800

Company Explanation

"Labour was developed on the basis of the actual wages paid to the crews assigned to sleeping and parlour cars on "The Dominion", and the material was developed on the basis of the percentage of material to labour. Also included are supervisory and office expenses of the Sleeping, Dining and

Parlour Car Department, which where developed by applying to the labour and material costs the ratio of these expenses to the total wages and material directly assigned."

Board Disallowance

This estimate was based mainly on actual wages. It included allowances for material, supervisory and general office expenses which would not necessarily be reduced in proportion to the reduction in staff. The Board disallowed 11 per cent of this estimate.

8. Other Transportation Expenses

Claimed	\$348,500
Disallowed	\$100,000
Allowed	\$248,500

Company Explanation

"This item includes the supervision, transportation, dispatching, communications—rail, loss and damage—baggage, insurance, stationery, damage to property, injuries to persons and other expenses which include fringe benefits. The cost of this item of expense for 'The Dominion' was developed by applying to the transportation expenses already developed the percentage of these other expenses to total transportation expenses excluding other."

Board Disallowance

Several different accounts and categories of expense are included in this estimate. The evidence did not satisfy the Board that the savings in this category would be directly proportional to previously estimated transportation expenses, and a disallowance of about 30 per cent was made.

11. Road Maintenance

Claimed	\$562,600
Disallowed	\$250,000
Allowed	\$312,600

Company Explanation

"The variable cost of road maintenance for total passenger service was first developed on the basis of cost coefficients produced by the means of regression analysis. An average cost per thousand gross ton miles in passenger service was computed and this cost was applied to the gross ton miles of 'The Dominion'."

Board Disallowance

The saving in road maintenance associated with discontinuing the operation of one passenger train over a route where other passenger trains and freight trains will continue to operate cannot be determined with precision. The regression analysis method used in making this estimate was recognized by the MacPherson Commission on Transportation as one of the acceptable costing techniques which, in the words of the Commission, were "significant

contributions to the science and art of solving the very complex and vexatious problem of transportation costing”.

The Commission's studies involved large segments of traffic, including the export grain movement and the system passenger train service of each railway. Much smaller segments of traffic have been involved in the discontinuance cases heard by the Board. In these past cases the Board has not allowed the full amounts estimated by the railways for road maintenance, and did not do so in this case. The disallowance which the Board made in this case represented 44 per cent of the Company estimate.

12. Traffic and General

Claimed	\$995,700
Disallowed	\$380,000
Allowed	\$615,700

Company Explanation

“A separate record is kept of passenger traffic expenses. These include the salaries and expenses of employees engaged solely in passenger service and a proportion of the salaries and expenses of employees engaged in both passenger and freight services determined on the basis of an analysis of duties. The cost of traffic expenses for ‘The Dominion’ was developed by applying the average passenger traffic expense per dollar of passenger revenue to the passenger revenue of ‘The Dominion’.”

“The amount of labour included in the variable cost of ‘The Dominion’ was computed on the basis of percentages developed in a study of labour content of railway expenses by primary accounts. The cost of pensions and unemployment for ‘The Dominion’ was computed by applying to the amount of labour thus computed percentages of pensions and unemployment insurance to labour for the system.”

“Other general expenses were computed by applying to the variable cost already developed for ‘The Dominion’ the ratio of other general expenses for total passenger service to total expenses of passenger service excluding these expenses.”

Board Disallowance

This category of expense has been considered by the Board in many previous cases and disallowances have been made. A part of the estimate reflects pensions and unemployment insurance which was allowed with the exception of the portion associated with the labour content of prior disallowances. The balance of the traffic and general estimate has been reduced to one-half, making the overall reduction 38 per cent of the Company estimate for traffic and general expense.

14. Cost of Money

Claimed	\$628,100
Disallowed	\$628,100
Allowed	\$ 0

Company Explanation

"Road—Cost of money on variable net investment in road property was calculated by applying to the gross ton miles of "The Dominion" a unit cost per thousand gross ton miles developed in regression analysis.

Locomotives—The cost of money for locomotives was calculated at the rate of 11.4 per cent on the net investment in the diesel locomotives required for the operation of "The Dominion".

Passenger Cars—The cost of money for passenger cars was calculated at the rate of 11.4 per cent on the net investment in the passenger cars required for the operation of "The Dominion". The accrued depreciation was computed on the basis of the average attained age of passenger cars by classes to arrive at net investment. No cost of money was included for units fully depreciated."

Board Disallowance

Cost of money was disallowed in full as a saveable expense. The Board may, in these cases, take cost of money into account if it considers the financial improvement from discontinuance.

15. Adjustment to Wage Rates

Claimed	\$133,800
Disallowed	\$ 25,000
Allowed	\$108,800

Company Explanation

Wage rates increased in 1965 over 1964 and the labour content of unit costs would be thereby altered. This was reflected in the adjustment to wage rates of \$133,800.

Board Disallowance

In order to allow for the labour content of previous disallowances, the Board made a reduction of \$25,000, or about 20 per cent.

No Disallowances were made in the following items:

1. Wages of Train and Engine Crews

These were actual wages based on miles claimed by the crews in service on "The Dominion" plus a provision for annual vacations and deadheading on a percentage basis.

2. Fuel

The cost of fuel was developed on the basis of miles run out by diesel units on "The Dominion", average fuel consumption of 1.5 gallons per unit mile for diesel units operated in passenger service, and the average price of fuel for the system.

3. Water, Lubricants and Enginehouse Expenses

These expenses were based on the system average cost per diesel unit mile in passenger service.

6. Station Expenses

These were based on a count of the number of people whose positions would be eliminated if "The Dominion" were discontinued.

9. Locomotive Repairs

These were based on the system average cost per diesel unit mile for shop and running repairs of diesel units on "The Dominion".

10. Passenger Car Repairs

For shop repairs the average cost was computed for shopping each class of car during the year 1964 and the first seven months of 1965; this was multiplied by the number of cars of each class required for service on "The Dominion". For running repairs the miles run out by passenger cars on "The Dominion" were multiplied by the average cost of running repairs for passenger cars on the system.

13. Depreciation of Locomotives and Passenger Cars

Depreciation was calculated by applying the straight line depreciation rates approved by the Board to the investment in locomotives and passenger cars required for operation of "The Dominion".

After allowing for the disallowances made by the Board, total saveable expenses were reduced from \$7,732,100 to \$6,163,000. This was further rounded down to \$6 million as "bare bones" expenses for purposes of "The Dominion" Judgment.

When the "bare bones" expenses were set against the revenues of \$2.9 million, the deficit appeared as \$3.1 million per annum. This was further rounded by the Board to \$3 million and used as the measure of annual loss for purposes of considering whether or not to authorize discontinuance of "The Dominion".

Economics and Accounting,

March 21, 1966.

MEB:W

COSTS AND REVENUES OF "THE DOMINION" ON A DAILY BASIS FOR TEN OPERATING UNITS

Evidence at pages 5076-7 of the transcript indicates where various units of the train are located at a specific time. At midnight, any night, there is one unit out of Montreal and there is another unit westbound out of Toronto. A third is near Fort William, a fourth near Swift Current and a fifth near Kamloops. At the same time eastbound there is a sixth unit near North Bend, a seventh near Medicine Hat, an eighth near Kenora and the ninth and tenth units are operating from Sudbury to Montreal and from Sudbury to Toronto respectively.

The distance from Montreal to Vancouver is 2,881 miles. The distance from Toronto to Sudbury is 260 miles. The ten units may be considered spread out over the round trip distance of 6,282 miles, which represents an average of 628 miles per unit in a 24-hour period. The following observations and computations apply to each of the ten units:

1. Each unit carries a basic 5-man crew—one engineer, one fireman, one conductor, one baggageman and one trainman. (A flagman is also required if the consist is eight or more cars).
2. Engine crews normally change at every divisional point. Divisional points average about 125 miles apart.
3. The train crew runs are of varying distances. The shortest run from Sudbury to North Bay is 79 miles. The longest run from Fort William to Winnipeg is 419 miles.
4. There are some other train employees over certain sections, i.e., two employees on the buffet-parlour car between Montreal and Ottawa, and one porter on the sleeping car between Montreal-Sudbury, Toronto-Sudbury and Fort William-Winnipeg.
5. Crew wages per unit per day average \$440.
6. Fuel cost per unit per day averages \$126.
7. Locomotive and car repairs per unit, per day average \$450.
8. Above three items of cost per unit
per day average \$1,016.
9. The "bare bones" costs allowed by the Board for other
items of expense in addition to the three aforementioned items
totalled per unit per day \$672.
10. The total "bare bones" cost was \$1,688 per unit per day
versus revenues of \$780 per unit per day.

Economics and Accounting,
March 21, 1966.

INTERCITY TRAVEL TRENDS

1949 TO 1964

The attached DBS bulletin for December 14, 1965, shows the intercity passenger miles performed in Canada by passenger automobiles, buses, railways and airlines during the 15-year period 1949 to 1965. During this period travel by passenger automobiles and air has increased, while travel by bus and train has decreased. If we take the 1949 passenger miles as an index of 100, the changes in the indexes have been:

- (1) Intercity travel by passenger automobile has increased to 317.
- (2) Intercity travel by bus increased from 100 in 1949 to 104 in 1951. It then declined until it reached an index of 74 in 1958 and rose again to 87 in 1964.
- (3) Intercity travel by rail declined from an index of 100 in 1949 to an index of 61 in 1961. It has increased to 84 in 1964.

(4) Intercity travel by air has increased to an index of 808 in 1964.

(5) Total intercity travel has increased to an index of 258 in 1964.

The over-all change in distribution of intercity passenger miles by modes of travel has been:

1.	Automobile—	69.5%	in 1949 to	85.1%	in 1964	
2.	Bus	—	14.7%	in 1949 to	5.0%	in 1964
3.	Rail	—	14.1%	in 1949 to	4.6%	in 1964
4.	Air	—	1.7%	in 1949 to	5.3%	in 1964
		100.0%		100.0%		

Economics and Accounting, File E-407

May 10, 1966

TUESDAY, DECEMBER 14, 1965

DBS DAILY BULLETIN

PAGE 4

INTERCITY PASSENGER-MILES PERFORMED IN CANADA BY
TYPE OF CARRIER, 1949-1964

Year	Passenger Automobiles	Intercity Bus ⁽¹⁾	Total Motor Vehicles	Air ⁽²⁾	Rail ⁽³⁾	Grand Total
Millions of Passenger Miles						
1949.....	15,695	3,327	19,022	385	3,193	22,600
1950.....	17,364	3,386	20,750	445	2,816	24,011
1951.....	20,521	3,459	23,980	555	3,110	27,645
1952.....	23,699	3,258	26,957	679	3,151	30,787
1953.....	26,180	3,217	29,397	787	2,986	33,170
1954.....	27,842	2,857	30,699	862	2,863	34,424
1955.....	30,227	2,801	33,028	995	2,892	36,915
1956.....	33,250	2,725	35,975	1,240	2,908	40,123
1957.....	34,347	2,593	36,940	1,405	2,925	41,270
1958.....	36,522	2,446	38,968	1,585	2,486	43,039
1959.....	39,095	2,532	41,627	1,886	2,446	45,959
1960.....	41,351	2,593	43,944	2,143	2,264	48,351
1961.....	42,990	2,654	45,644	2,519	1,961	50,124
1962.....	44,845	2,713	47,558	2,708	2,019	52,285
1963.....	47,180	2,862	50,042	2,826	2,070	54,938
1964.....	49,679	2,886	52,565	3,109	2,681	58,355

Percentage Distribution

1949.....	69.5	14.7	84.2	1.7	14.1	100.0
1950.....	72.3	14.1	86.4	1.9	11.7	100.0
1951.....	74.2	12.5	86.7	2.0	11.3	100.0
1952.....	77.0	10.6	87.6	2.2	10.2	100.0
1953.....	78.9	9.7	88.6	2.4	9.0	100.0
1954.....	80.9	8.3	89.2	2.5	8.3	100.0
1955.....	81.9	7.6	89.5	2.7	7.8	100.0
1956.....	82.9	6.8	89.7	3.1	7.2	100.0
1957.....	83.2	6.3	89.5	3.4	7.1	100.0
1958.....	84.8	5.7	90.5	3.7	5.8	100.0
1959.....	85.1	5.5	90.6	4.1	5.3	100.0
1960.....	85.5	5.4	90.9	4.4	4.7	100.0
1961.....	85.8	5.3	91.1	5.0	3.9	100.0
1962.....	85.8	5.2	91.0	5.2	3.8	100.0
1963.....	85.9	5.2	91.1	5.1	3.8	100.0
1964.....	85.1	5.0	90.1	5.3	4.6	100.0

⁽¹⁾ Includes passenger-miles performed in the U.S. by Canadian registered buses which are considered insignificant.

⁽²⁾ Represents passenger-mile performance in Canada by Canadian and foreign carriers licenced to operate in Canada.

⁽³⁾ Includes railway commuter services which accounts for not over 5% of total rail passenger miles.

Prepared in the Information Division

RAILWAY COST ACCOUNTING IN CANADA

(A general non-technical explanation by the Director of Economics and Accounting, Board of Transport Commissioners)

General Background

During the recent debate on the 1965-66 estimates of the Department of Transport, suggestions were made, and the Minister agreed that consideration would be given to providing the House of Commons Committee on Transport and Communications with assistance in the field of railway cost accounting.

The material which follows is intended to assist the members of the Committee in noting the development of railway accounting in Canada and the application of railway costing in cases before the Board of Transport Commissioners.

Reference will be made to three periods of time:

(1) from incorporation of the first railroad in 1832 to creation of the Board of Railway Commissioners in 1903; (2) from 1903 to the prescribing of accounting for railways in Canada in 1956; and (3) the period under the Uniform Classification of Accounts since January 1, 1956.

This will be followed by four other sections, i.e., (4) the 1964 expenditures of C.N. and C.P. by main accounting categories; (5) cost information required by the Board in abandonment cases; (6) cost submissions in "The Dominion" case; and (7) the Board's organization for costing.

(1) Railway Legislation which influenced Accounting Prior to 1903

When railways were first projected in Canada there existed no general statute under which they could operate, and each company was obliged to ask from Parliament such powers as were necessary for organization, operation and maintenance, which powers were not expressly or impliedly conferred upon them by the common law. The earliest instance of such railway legislation in Canada was an Act incorporating the Champlain and St. Lawrence Railroad in 1832. From the years 1834 to 1851 the number of railway enterprises applying for incorporation became more and more numerous, and as business increased, accompanied by experience, the provisions which each railway sought to have incorporated in its charter greatly multiplied. This led to the passage of several general statutes and also some consolidation of various acts.

Upon Confederation it became necessary to enact a new statute which would be applicable to all railways within the jurisdiction of the Parliament of Canada; this was called the Railway Act of 1868.

A number of amendments followed which led to the passage of the Consolidated Railway Act of 1879. Further amendments led up to the passage of the Railway Act of 1888. Other amendments followed and there was a demand for further legislation. Suggestions were made that a Railway Commission be created to take the place of the Railway Committee of the Privy Council which

body was under criticism in respect to its exercising of jurisdiction over railways. A new statute was drawn up and presented to Parliament in 1902 and again in 1903; after many changes in the Committees of both Houses it was again recast and enacted as the Railway Act 1903. Section 8 of this Act began "The Railway Committee of the Privy Council is hereby abolished and, in lieu thereof, there shall be a Commission, to be known as The Board of Railway Commissioners for Canada". At a later date the name was changed to the Board of Transport Commissioners for Canada.

There is evidence of the growth of a broad pattern of railway accounting during this seventy year period before 1903. At the end of the fiscal year ended June 30th, 1903, the Department of Railways and Canals were receiving reports from eighty-three steam railways; sixty-two of which were less than 100 miles in length. These reports related to earnings and operating expenses as well as mileage, rolling stock, characteristics of roads, operations, passengers and freight carried, and accidents. The summary of operating expenses was then presented under four main headings, Maintenance of Line, Buildings, etc.; Working and Repairs of Engines; Working and Repairs of Cars; and General Operating Expenses.

(2) Railway Accounting up to December 31, 1955

As hereinbefore noted, the Railway Act of 1903 was enacted during a period when the Railway Committee of the Privy Council was experiencing difficulty in exercising jurisdiction over railways. In this atmosphere wide powers were delegated to the new Board of Railway Commissioners and provision was made in the Railway Act for safeguards designed to insure that the regulated companies gave a proper "accounting" to the Board, acting for Parliament. These provisions of the Railway Act were designed not only to protect the public interest during construction, to guard against unsafe operation, to provide a fair and reasonable rate structure and to avoid unjust discrimination, but also to insure annual returns of a railway's capital, traffic and working expenditures. The Act also provided for the Board to receive a wide range of accounting and other information in such detail and particulars as the Board required.

In the fifty-two year period from 1903 to 1955, railway accounting in Canada and in the United States developed a well defined pattern. The pattern was basically the same in both countries due to similar operating practices, and the promotion of standard practices by the A.A.R. (Association of American Railroads) and the R.A.C. (Railway Association of Canada). The I.C.C. (Inter-state Commerce Commission), which had been created in 1887, also exercised a strong influence on railway accounting through the prescription of a Uniform System of Accounts in 1907. This System of Accounts applied to Canadian railways operating in the United States, and it was generally followed by them in accounting for their Canadian operations; but there was no Canadian legislation in respect of uniform accounting until amendment of the Railway Act in December, 1951.

(3) Uniform Classification of Accounts, effective January 1, 1956

Pursuant to a recommendation of the Turgeon Royal Commission on Transportation and amendment of the Railway Act, the Board of Transport

Commissioners for Canada prescribed a Uniform Classification of Accounts for Canadian National and Canadian Pacific, effective January 1, 1956, and for other smaller railways in Canada, effective January 1, 1957. This Classification generally paralleled the established System of Accounts prescribed by the I.C.C. and the accounting practices of all Canadian railways, with one notable exception in respect of a significant part of road maintenance. Provision was made in the Canadian Classification to charge major road maintenance replacement expenditures to capital rather than make direct charges to expense for items such as ties, rails, other track material and ballast. Such depreciation accounting had been suggested by the Turgeon Commission and was recommended by the accounting advisers to the Board. The requirements of the B.T.C. Classification had the effect of "levelling out the ups and downs" of a large segment of expense which heretofore had been dependent on the railway company's current year replacement programme, since under the revised system and straight line depreciation, the capitalized amounts were spread over the average lives of the service groups. Depreciation accounting was dealt with at length in the recent Judgment re "The Dominion" at pages 55 to 59. An extract of this material from "The Dominion" Judgment is appended hereto.

In order to insure uniform accounting practices it is necessary that the Classification contain detailed instructions and that it is technically correct in its language. This makes it more useful to railway accountants, but more difficult for others to interpret. Attempts to simplify such language for easier explanation could result in statements which are not quite correct technically, but should not seriously offend the underlying principles. The following explanatory paragraphs on railway depreciation are in this category.

The owner of an apartment building may depreciate his investment over a period of, say, thirty years, at the end of which time he will "have his money back", and depreciation will no longer be an item of expense. The owners of a major railway have title to numerous groups of replaceable assets with varying lives and salvage values. In the case of railway ties, for example, there is continuous replacement so that ties as a group are never worn out, and the accumulated depreciation is not likely to reach the full cost of the assets.

It might be thought that an old branch line of railway which had received only minimum maintenance for several years should not be charged with average maintenance in an abandonment application. If the application were denied the railway would then need to make more than average annual expenditures on material and labour in order to "catch up" on maintenance. Under the Board's Classification, part of this expenditure would, however, be capitalized and only an average maintenance charge would be made to expense. If, instead of looking ahead, attention were directed to the last programmed maintenance of, say, five years ago, this was not charged to a single year but was spread over the average life of the railway company's assets including the year or years shown in the abandonment application.

Another factor which must be recognized in considering group depreciation rates is that the long-lived assets are, in some asset groups, combined with short-lived assets to form the average service life of the group. If depreciation did not continue to accrue beyond the average service life, the group depreciation rate would need to be higher. In this connection reference might be made

to an old locomotive which continues to be depreciated beyond its average service life. This acts as an offset to the fact that a new locomotive which was wrecked after only a few years of service, accrued depreciation equivalent to only a fraction of its book value. It might also be noted that the old locomotive continuing in service beyond the average service life of that class of locomotives may be doing the work of a new higher priced locomotive which will be required when the old locomotive is retired.

The foregoing are some of the reasons why companies such as railways apply group depreciation rates to depreciable assets as long as these assets remain in service. When they are retired, whether short-lived or long-lived, the full book value is charged against the depreciation reserve.

Railway companies and other large utilities are the types of companies which find group depreciation a practical method of recording the amounts of depreciation which are provided annually, or charged with retirements. Smaller companies with only a few assets or a company which has one asset such as the illustration previously indicated would have no use for group depreciation as a basis. Of course, many Canadian companies adopt depreciation accounting (capital cost allowance) as set forth in the requirements of the income tax act, and in effect use group depreciation for the various classes of assets as outlined in the income tax regulations.

(4) *Primary Expense Account Groups*

The main categories of railway expense together with 1964 totals for Canadian National and Canadian Pacific are shown hereunder:

	<i>Canadian National</i> \$ Millions	<i>Canadian Pacific</i> \$ Millions
I. ROAD MAINTENANCE	135.1	82.6
II. EQUIPMENT MAINTENANCE	150.4	102.4
III. TRAFFIC	17.4	12.9
IV. TRANSPORTATION-RAILWAY LINE	248.2	177.3
V. MISCELLANEOUS RAILWAY OPERATIONS	9.9	9.2
VI. GENERAL	61.0	39.2
VII. EQUIPMENT RENTS	(3.2)	(3.0)
VIII. JOINT FACILITY RENTS	(0.4)	1.5
IX. RAILWAY TAX ACCRUALS	14.5	44.4
TOTALS	632.9	467.1

Under the nine account groups shown above there are many expense sub-accounts which are prescribed for use of the railways. Accounts other than expense accounts which are prescribed by the Board include 50 Property

accounts, 30 Revenue accounts, 26 Income accounts, 14 Retained Income accounts and 70 General Balance Sheet accounts. In addition, companies are permitted to further subdivide their accounts for managerial purposes. This is done on a regional and area basis in order to associate a portion of the System expense with individual officers responsible for control. Still further breakdowns of expense and cost allocations are made for the costing of specific movements and services.

(5) *Cost Information to be filed in Abandonment Applications*

The Board's memorandum of August 7th, 1962, sets out cost information which companies are required to file in support of an application to abandon the operation of a line of railway.

The first group of costs specified in the memorandum are "Directly Accountable Costs", i.e. those recorded directly in the accounts or those which can be directly determined from the records. The type of costs in this category are shown in the attached copy of the August 7th, 1962, memorandum.

The second group of costs are "Allocated Costs". These are costs which are recorded in the accounts only as System or area totals and which require allocation on the basis of the service units involved in providing transportation for traffic to and from the branch line.

The third group of costs are "Overhead Allowances". These represent that proportion of the overhead which, like the first two groups of costs, would be saved or avoided if the branch line were abandoned.

These three groups constitute the total saveable expenses in the event of abandonment. A share of other costs could be allocated to a branch line if the objective was to produce a "full accounting", such as might be desired for a line which was expected to continue in operation. For purposes of an abandonment application however, only the saveable expenses are considered in determining the annual operating loss. The Board may also consider interest on net salvage in determining financial improvement, and may take deferred maintenance into account in determining annual long term betterment as the result of abandonment of a line of railway. The same principles are applied in the case of applications to discontinue the operation of passenger service.

Some railway costs are disallowed or reductions are made by the Board because the Board is not satisfied that the method used by the company results in the proper allocation of cost, even though the method may be recognized as the best method available. This is sometimes the case when multiple regression analysis has been used to establish the variability of costs.

The Board may also make disallowances where the company has assumed that a proportional share of savings involved in discontinuing a large segment of service would apply to discontinuance of part of the service. In this connection the Board normally treats each application individually, and considers the minimum rather than the maximum savings anticipated from discontinuance. In most cases, particularly when the margin between revenues and saveable expenses is narrow, the Board's staff makes a detailed examination of the railway working papers.

(6) *Cost Submission re "The Dominion"*

Since "The Dominion" Judgment is of recent date and presently in the minds of Members of Parliament, this may be an opportune time to examine the cost accounting submissions in that case. On page 42 of the Judgment, figures, as compiled by the Company, were shown of the revenues and variable costs of "The Dominion" in 1964 which was the last full calendar year in which it operated with head-end cars, sleepers, diners and coaches:

Revenues	\$11,154,234
Variable Cost	20,828,166
	<hr/>
Deficit	\$ 9,673,932
	<hr/> <hr/>

For a projected twelve-month operation without head-end traffic and with the Winter consist, revenues were reduced by \$8.3 million and expenses were reduced by \$13.1 million. The deficit became \$4.9 million, i.e. for twelve months:

Revenues	\$ 2,852,100
Variable Cost	7,732,100
	<hr/>
Deficit	\$ 4,880,000
	<hr/> <hr/>

The company stated that this amount of \$4.9 million would be saved annually if the train were discontinued. The Judgment contained a description of how variable costs are allocated to a service such as "The Dominion". Comment was also made on the investigation of railway cost submission by the Board's staff. This was followed by a description of the railway methods used in determining the amount of various categories of variable cost. The Judgment stated, at page 59:

"A question which the Board asks in testing the reasonableness of variable cost estimates is will this amount be fully saved in the event of discontinuance? These so-called "saveable expenses" are a minimal expense factor to be taken into account when weighing the benefit to the railway company of discontinuing a deficit operation against the public need for the continuance of such an operation."

The Board did not agree that the company would necessarily save \$4.9 million annually by discontinuance of "The Dominion", and made disallowances in respect of Cost of Money, Road Maintenance, Traffic and General Expenses. The Board found, however, that even after making such disallowances, there would be a saving of at least \$3 million annually if discontinuance were authorized.

(7) *Board Organization for Costing*

The Board has, for some time, been strengthening its Economics and Accounting staff to meet the requirements of costing and other aspects of abandonment and discontinuance cases, and also to prepare for increased responsibilities under proposed amendments to the Railway Act based on recommendations of the MacPherson Royal Commission on Transportation.

Under this legislation the Board will be required to verify the accuracy of cost submissions by the railways in annual subsidy claims, and on an individual basis in minimum and maximum rate level determinations.

In this connection the Chief Commissioner recently wrote to the Presidents of the two major railways and received assurances of full co-operation from both companies in facilitating a comprehensive study by the Board of railway costing methods and data. A copy of the Chief Commissioner's letter is appended, which indicates the Board's organization for costing and the costing programme for the next six months.

An attachment to this letter outlines the qualifications and experience of professional staff of the Economics and Accounting Branch. The present establishment consists of 27 positions of which 15 are professional staff and 12 are clerical. Seven additional positions, four at the professional level, have been approved in principle pending new legislation.

Prepared by

Malcolm Burwash,
Director of Economics and Accounting,
Board of Transport Commissioners.

Attachments—

- (1) Extract from "The Dominion" Judgment.
- (2) August 7, 1962, memorandum re Costs in Abandonment Applications.
- (3) Chief Commissioner's letter re Board Organization for Costing.

EXTRACT RE DEPRECIATION FROM PAGES 55-59 OF "THE DOMINION" JUDGMENT

During cross-examination of Mr. Nepveu, particular attention was directed to depreciation. Since this is a major item of expense and since some aspects of the subject, including group depreciation rates and claims under the Income Tax Act, are not well known, I will review the evidence and comment on the accounting practices in some detail.

Mr. Olson directed questions to Mr. Nepveu as to the amounts claimed for depreciation as a variable cost of "The Dominion" and as to how depreciation is treated by the Company for the purposes of the present case and for income tax purposes. Mr. Olson submitted that depreciation on the passenger cars is a cost that will not be discontinued if the service is dropped, that the undepreciated cost of the cars will still be charged by the Company for income tax purposes, whether the train runs or not, and consequently there will be no saving in so far as the public of Canada is concerned.

Mr. Nepveu replied, in effect, that the Company follows the straight line method of calculating depreciation on its books of account, which is in accordance with the requirements of the Board, and that in determining the depreciation for income tax purposes, the capital cost allowance is based on the diminishing value method. On the straight line depreciation method, no matter how old a car still in service may be, the Company would continue to provide deprecia-

tion on it as long as the car is still in service, because of the group basis employed. On the other hand, in cases where a relatively new car is wrecked and retired from service, it is removed from the investment account and charged to accrued depreciation, less the value of the scrap, and the Company then discontinues accrual of depreciation on such car, as stipulated in the Board's Uniform System of Accounts.

In respect of depreciation, the Board requires that depreciation charges shall be computed in conformity with the group plan under the straight line method, the 'user' or unit of production method, the diminishing value method, or other methods approved by the Board. For the purpose of the group plan of depreciation accounting, depreciable asset accounts, which include property of a like nature, may be grouped and an appropriate composite depreciation rate established for each group of assets to compute the depreciation thereon. These rates are determined upon the basis of the aggregate service value and the properly weighted service lives of such classes of property, and are from time to time approved by the Board. The weighted service life reflects total group experience including some long lived assets and some with shorter than average lives. Any carrier providing depreciation on the diminishing value or other method approved by the Board, must be prepared to submit, when directed, such records of depreciable property and property retirements as will establish the service life of such property, also such records as will reflect the percentage of value of the salvage for property retired from each class of depreciable property.

The use of group depreciation and composite rates is recognized as good accounting practice by the accounting profession, and provides a practical solution to the otherwise extremely burdensome problem of maintaining accumulated depreciation records on an individual asset basis; it is particularly useful and effective when a carrier has a large number of property units of the same kind. Since actual experience results in some individual assets within a group not surviving the average period of service which has been estimated for that group, and others exceeding it, it becomes necessary by accounting methods to ensure that the Company will finally accrue in its accumulated depreciation accounts the full amount of the cost of its capital investment in the assets which had been included in the group.

This is achieved by eliminating from the investment account and charging to the accrued depreciation account the losses due to unrecovered depreciation on prematurely retired assets, which losses are later counter-balanced by accrual of depreciation in the reserve account from assets in service which have exceeded the estimated average service life. If, as has been suggested, carriers were to cease accruing depreciation when railway cars in service had reached the average service life, it would be necessary for the railways to establish, and apply to this Board for approval of a rate in excess of the 3.88%, to take care of the losses resulting from those units which for one reason or another are retired earlier than the period of the average service life, in order to avoid an ultimate deficiency in the accrued depreciation account. Such a practice would fail to recognize the principle of averages involved in composite rates, and the necessity of full recovery of cost of investment in the accrued depreciation accounts. It should be mentioned that the Board would not approve provision

of depreciation for a group of assets which would result in accruing depreciation in excess of the Company investment in that group.

Mr. Olson also asked questions as to the use by C.P.R. of the Capital Cost Allowance or diminishing value method of calculating depreciation for income tax purposes. Under this method the Company continues to claim on the undepreciated value for income tax purposes after the asset is retired, since, as the cost witness explained, 'the method does not provide for the full capital cost allowance during the life of the equipment, and there are always remaining balances'. Mr. Olson submitted that depreciation would continue for income tax purposes on the cars used on "The Dominion" if it were abandoned, and whether they were retired or not. This practice, he stated, would reduce company payments for income tax to the disadvantage of other taxpayers.

The privilege of taking depreciation on the capital cost allowance method for income tax purposes is enjoyed by all companies and is approved by the Department of National Revenue. This method permits a higher rate of depreciation than that approved by the Board, and, in the case of a railway system, including its railway cars, is fixed by regulation at 6%, to be applied to the declining depreciated value of the assets until they have been fully depreciated. This results in higher depreciation being deducted for tax purposes in the earlier years than would be permitted on the straight line depreciation method, and an extension in time in which depreciation may be taken in progressively lower amounts beyond the physical life of the asset.

In both the straight line method of depreciation used by the Board and by Canadian Pacific in determining costs, and the diminishing value method permitted for income tax purposes, a company cannot recover more than the total investment in a group of assets. This is so under the group plan of depreciation although it may not always be clear in practice, particularly toward the end of the service life of a single unit. It is my finding that the depreciation charged in the present case is a cost incurred as a result of the operation of the train, and should be allowed notwithstanding that a different amount is permitted by the Department of National Revenue for income tax purposes, and notwithstanding that depreciation in respect of passenger cars might continue to be claimed after discontinuance of "The Dominion".

February 22, 1966.

Also to:

R. A. Emerson, Esq., B.Sc., (C.E.) LL.D.,
Pres., Canadian Pacific Railway Company,
Montreal, P.Q.

January 24, 1966.

Mr. Donald Gordon, C.M.G., D.C.L., LL.D.,
Chairman and President,
Canadian National Railways,
Montreal, P.Q.

File No. 45464.2.4—re Board Organization for Costing.

Dear Mr. Gordon:

As you are aware, under proposed amendments to the Railway Act, pursuant to recommendations of the MacPherson Commission the Board will be required to verify the accuracy of cost submissions by the railways in annual subsidy claims and on an individual basis in minimum and maximum rate level determinations.

Verification of these cost submissions will involve more comprehensive study by the Board of the costing methods and data used by Canadian National and Canadian Pacific than has heretofore been required in applications to abandon lines and to discontinue passenger train service.

In view of the important financial implications to the public interest and to the companies, and the complexities of cost-based subsidy administration, the Board has taken steps to strengthen its organization for costing. An outline of the organization is attached.

It is expected that the programme of our staff during the next six months will necessarily involve numerous visits to your cost accounting, general accounting and statistical departments in Montreal in order to discuss computation and methods of costing and to develop acceptable procedures that may be put to use when the new legislation comes into effect. It is hoped that after this initial period the examination of Company records will require considerably less attention on the part of the Board's staff.

I assume that our Analysts will have access to cost accounting records on a confidential basis similar to that under which the Board's Examiners carry out their examinations in respect of the Uniform Classification of Accounts.

I suggest, and this is the principal purpose of this letter, that your Company designate an informed officer at the working level in each of the said departments to work in a liaison capacity with the Board's Analysts and also that an officer at the supervisory or management level be designated with authority to implement action on matters arising from the examination of costing procedures and unit costs. If you agree, may I have their names and I will pass the information on to Mr. Burwash who will then get in touch with the officers designated.

Yours very truly,

Rod Kerr,
Chief Commissioner.

Board Organization for Costing

In preparation for the assumption of additional responsibilities flowing from implementation of the MacPherson Commission recommendations, the Board has, for some time, been conducting cost research and strengthening the staff of its Economics and Accounting Branch. This Branch of the Board is under the direction of Mr. M. E. Burwash, MBA, who has had long experience in transportation in both industry and government regulation. The Assistant Director, Mr. D. C. Deighton, RIA, has had extensive costing experience in the manufacturing industry and in defence production.

The Chief Cost Analyst, Mr. M. C. Tosh, B. Comm., has had previous experience in costing in the railway industry and in transportation statistics with the Dominion Bureau of Statistics. Mr. Tosh is responsible for the analysis of cost submissions filed in support of applications to abandon lines of railway and to discontinue passenger train services. The senior Cost Research Analysts are M. A. Campbell, RIA, and Mr. M. N. Rasheed, B. Comm. ACW. Mr. Campbell who came to the Board in January, 1965, has had previous experience at management level in several manufacturing companies with responsibility for cost accounting. Mr. Rasheed also has had considerable cost accounting experience in industry. A competition is in progress for two junior Cost Analysts with a good knowledge of costing principles and with industrial costing experience.

The Cost Section of the Economics and Accounting Branch works closely with the financial Examiners, whose duties involve a continuing examination of accounting and statistical records of companies under the Board's jurisdiction, including railway companies for whom the Board has prescribed a Uniform Classification of Accounts. The Examination Section includes five Examiners, three of whom are certified accountants. The Chief Examiner, Mr. A. McCarthy, was, for many years, engaged in railway accounting before joining the Board. He is responsible for developing accounting revisions, including provision for separate accounting by modes of transport as recommended by the MacPherson Commission for costing purposes.

The work of the Cost Section and the Examination Section is correlated with that of the Economics Section which is responsible for economic research in the fields of transportation and communication and for the administration of the so-called \$20 million and \$50 million subsidies. The Head of the Economics Section is Mr. A. Mikel, MA, who has had many years' experience as an economist and statistician with several government departments.

It is expected that the Board's costing programme for the next six months will involve frequent visits by staff of the Economics and Accounting Branch to the railway cost accounting, general accounting and statistical departments in Montreal. It is proposed to begin with a detailed examination of the computation of the unit costs currently used by the railway companies. These unit costs were originally developed in 1958 and have since been updated annually by means of indices. Each unit cost will be traced from its accounting-statistical source through the procedural steps to where such unit cost is incorporated in a cost submission to the Board, e.g., an application to abandon a branch line or to discontinue a passenger train service. It is also intended to trace the unit costs

through to their use by the railways in determining the amounts of annual passenger train service deficits and the compensatory levels of existing and proposed freight rates.

File No. 45464.2.4

January 21, 1966.

BOARD OF TRANSPORT COMMISSIONERS FOR CANADA

MEMORANDUM RE INFORMATION TO BE FILED IN SUPPORT
OF ABANDONMENT APPLICATIONS.

In the matter of applications to the Board of Transport Commissioners for Canada for authority to abandon the operation of a line of railway, there is set out, hereunder, certain information to be filed in support of an application, although not to the exclusion of such other information as may, in the opinion of Counsel engaged in the matter, or in the opinion of the Board, be necessary evidence:

- A. "Directly Accountable Costs", i.e., those on-line costs which are closely identified with operation over the line proposed for abandonment and which are recorded or may be determined from the records, including such items as:
- (1) Section Force Maintenance—Labour
—Material
 - (2) Extra Gangs and Work Trains
 - (3) Road Property Depreciation
 - (4) Property Taxes
 - (5) Station Expense—Wages
—Other
 - (6) Train Expense—Crew Wages
—Fuel
- B. "Allocated Costs", separated between on-line and off-line, i.e., those costs which are usually recorded only for the area, the region or the system, and allocated on the basis of service units, including such items as:
- (1) Car Mile and Car Day Costs
 - (2) Locomotive Mile, Unit Mile and Horsepower Mile Costs
 - (3) Road Unit Dispatch Costs
 - (4) Train Mile Costs
 - (5) Gross Ton Mile Costs
 - (6) Yard Switching Costs
 - (7) Carload Billing and Collecting Costs
- C. "Overhead Allowances", i.e., the anticipated savings in overhead associated with avoiding the directly accountable and the allocated costs, and which may be expressed as ratios or percentages for such items as:
- (1) Superintendence
 - (2) Traffic
 - (3) General
 - (4) Communications

- D. "Summary of Expenses", showing:
- (1) Directly Accountable Costs
 - (2) Allocated Costs—On Line
—Off Line
 - (3) Overhead Allowances
 - (4) Total Saveable Expenses
- E. "System Revenues" for all traffic originating and determinating on the line proposed for abandonment, including:
- (1) Carload Freight Revenue
 - (2) L.C.L. Freight Revenue
 - (3) Express Revenue
 - (4) Mail Revenue
 - (5) Passenger Revenue
 - (6) Communications Revenue
 - (7) Other Revenue
 - (8) Total System Revenues
- F. "Annual Operating Loss", i.e., the difference between the total saveable expenses and the system revenues, assuming that operation over the line will cease and that traffic to and from points on the line will no longer move by rail. (*Note*—To the extent that some traffic continued to move profitably by rail on part of the system, it would increase the net gain from the proposed abandonment.)
- G. "Estimated Salvage", showing:
- (1) Gross value of material to be salvaged
 - (2) Cost of salvaging
 - (3) Net salvage value
- H. "Estimated Deferred Maintenance", showing:
- (1) Normal Road Maintenance (annual basis)
 - (2) Road Maintenance Included in Expense Estimates
 - (3) Balance Deferred Maintenance (annual basis)
- I. "Summary of Financial Position", showing:
- (1) Annual Operating Loss
 - (2) Interest on Net Salvage
 - (3) Annual Financial Improvement
 - (4) Deferred Maintenance (annual basis)
 - (5) Annual Long Term Betterment

C. W. Rump,
Secretary.

August 7, 1962.

March 18, 1966.

Mr. H. H. Griffin,
Assistant Chief Commissioner.

Re: Professor Berge's Suggestion for Modification
of the I.C.C. Separation Rules.

I have read the suggestions of Professor Berge which were submitted to the Parliamentary Committee by Mr. Wright. Professor Berge objects to the method used by the I.C.C. to separate *all* operating expenses between freight and passenger service since this overstates the passenger train deficit. His thesis is that only the *avoidable* costs should be assigned to passenger service.

The above suggestion by Professor Berge is in line with the method of separation which was used by Canadian railways before the MacPherson Royal Commission on Transportation, and which is applied by the railways and the Board in passenger train discontinuance cases. The following quotations from Professor Berge's statement indicate the degree of accord between his opinions and those of this Board:

Page 2—"It is only reasonable that poorly patronized trains whose revenues do not even cover out-of-pocket operating costs must be eliminated after every effort has been exhausted to improve their earnings. But well patronized passenger trains will certainly continue to be run by important freight carrying railroads. This makes good sense in view of the marginal or incremental nature of passenger train service on any railroad whose principal business is carrying freight, but whose freight-gearred plant is not being used to its full capacity."

Page 4—"No by-product, such as passenger service on a freight railroad, or livestock on a grain farm, can be directly profitable however, unless it earns sufficient revenues to more than cover its marginal or incremental costs—which are those costs that may be clearly *avoided* by not engaging in the production of the by-product during the period under consideration. Ordinarily the period involved in making such marginal cost and profit decisions is a year, but in special circumstances it may be a longer or shorter period of time."

Page 21—"The objective of more accurately measuring the respective costs and profitability of freight and passenger train services can only be achieved by permitting each railroad to make its own special studies to determine the specific elements of its net investment in fixed plant facilities and the specific portions of common overhead expenses which could be avoided by discontinuance of passenger and allied services. Such expenses, when added to the expenses solely related to passenger and allied services, will provide a far more accurate measure of their short run marginal or incremental cost."

M. H. Burwash,
Director.

MEB:W

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament
1966

STANDING COMMITTEE

ON

TRANSPORT AND COMMUNICATIONS

Chairman: Mr. JOSEPH MACALUSO

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 19

FRIDAY, JUNE 10, 1966

Respecting

The Main Estimates 1966-67 of the Department of Transport

WITNESSES:

Hon. J. W. Pickersgill, Minister of Transport, Hon. John Turner, Minister without Portfolio and Mr. J. R. Baldwin, Deputy Minister of Transport.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE
ON
TRANSPORT AND COMMUNICATIONS

Chairman: Mr. Joseph Macaluso

Vice-Chairman: Mr. H. Pit Lessard

Mr. Allmand	Mr. Horner	Mr. Pascoe
Mr. Andras	(Acadia)	Mr. Reid
Mr. Ballard	Mr. Howe	Mrs. Rideout
Mr. Bell	(Wellington-Huron)	Mr. Rock
(Saint John-Albert)	Mr. Hymmen	Mr. Saltsman
Mr. Byrne	Mr. Lessard	Mr. Saltsman,
Mr. Cantelon	Mr. Macaluso	Mr. Southam
Mr. Carter	Mr. MacEwan	Mr. Yanakis—25
Mr. Deachman	Mr. McWilliam	
Mr. Fawcett	Mr. Olson	

(Quorum 13)

Maxime Guitard,
Clerk of the Committee.

ORDERS OF REFERENCE

TUESDAY, March 22, 1966.

Ordered,—That, saving always the powers of the Committee of Supply in relation to the voting of public monies, the items listed in the Main Estimates for 1966-67, relating to the Department of Transport be withdrawn from the Committee of Supply and referred to the Standing Committee on Transport and Communications.

THURSDAY, June 9, 1966.

Ordered,—That the Standing Committee on Transport and Communications be authorized to sit while the House is sitting, such authority to have effect for Thursday, June 9, Tuesday, June 14 and Thursday, June 16, 1966.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House.

REPORT TO THE HOUSE

FRIDAY, June 9, 1966.

The Standing Committee on Transport and Communications has the honour to present its

SIXTH REPORT

Your Committee recommends that it be authorized to sit while the House is sitting, such authority to have effect for Thursday, June 9, Tuesday, June 14 and Thursday, June 16, 1966.

Respectfully submitted,

JOSEPH MACALUSO,
Chairman.

(Concurred in on June 9, 1966.)

MINUTES OF PROCEEDINGS

FRIDAY, June 10, 1966.

(35)

The Standing Committee on Transport and Communications met at 9:38 o'clock a.m. this day. The Chairman, Mr. Macaluso, presided.

Members present: Mrs. Rideout and Messrs. Allmand, Andras, Bell (*Saint John-Albert*), Byrne, Cantelon, Carter, Fawcett, Hymmen, Lessard, Macaluso, MacEwan, McWilliam, Olson, Pascoe, Reid, Saltsman, Southam and Yanakis (19).

In attendance: From the Department of Transport: The Honourable J. W. Pickersgill, Minister, The Honourable John Turner, Minister without Portfolio and Mr. J. R. Baldwin, Deputy Minister.

The Chairman opened the meeting, read the Order of Reference and called Item No. 1 of the 1966-67 estimates before inviting the Minister of Transport to make an opening statement and be questioned thereafter.

Item No. 1 was allowed to stand until the Minister is recalled.

Item No. 5 was called.

Then the Committee resolved itself into an "*in camera*" meeting to consider the draft interim report.

At 1:00 o'clock p.m. the Committee adjourned until 9:30 o'clock a.m. on Tuesday, June 14, 1966.

Maxime Guitard,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

FRIDAY, June 10, 1966.

● (9.38 a.m.)

The CHAIRMAN: I will read to the Committee the reference of the estimates to this Committee. On Tuesday, March 22, 1966, it was ordered:

That, saving always the powers of the Committee of Supply in relation to the voting of public moneys, the items listed in the main estimates for 1966-67 relating to the Department of Transport be withdrawn from the Committee of Supply and referred to the Standing Committee on Transport and Communications.

You all have copies of the vote. I shall call Vote 1 and then I will ask the Minister of Transport to make an opening statement, for which this meeting was called.

Department of Transport: 1. Departmental Administration, \$4,899,-800.

We have with us today not only the Minister of Transport but also the Deputy Minister, Mr. Baldwin, and Mr. Turner, the Minister without Portfolio.

The Hon. J. W. PICKERSGILL (*Minister of Transport*): Mr. Chairman and members of the Committee, you will recall during the present session the rather extensive review of my estimates for the fiscal year that ended on March 31 last, when it was suggested by several members that I make an attempt to say what national transportation policy was. In a speech I made near the conclusion of the consideration of those estimates I did say that when the estimates for the current fiscal year were before the standing Committee I would have a crack at this very difficult task. I could do it in six sentences or I could do it in three volumes; I am not going to do either. I do not really think that the Committee would feel I was dealing adequately with the subject if I did it in six sentences and I am perfectly sure that you would not have the patience to listen to my three volumes, so I am going to try to steer a middle course. I am going to start by defining my terms a little bit and I regret very much that Mr. Douglas Fisher is not here to hear me do this because it would give him another opportunity for dissent.

There is one concept, of course, of a national transportation policy which is that all forms of transport should be provided by government. This is not an area for ordinary commercial activity. There are or used to be a few really rugged and violent private enterprisers who never quite went the length of saying the government should do nothing in the field of transportation but who felt that anything on which a profit could be made should not be touched by government. I do not belong to either school. My view is that government agencies should not be expected just to be the residual carrier to operate

services that may be required but are bound to lose money or that it should simply dole out from the treasury subsidies for services that are necessary and are bound to lose money and that anything on which a profit could be made should be left to someone else.

I do think that when the union government was faced with the problem at the end of the first world war of putting together all the bankrupt railways of the old Canadian Northern System and the Grand Trunk System and combining them with the Canadian government railways, that they did what has turned out to be quite a sensible thing. Mr. Mackenzie King's government, when he came into office the first time, carried on this policy; they set out to create a railway system, to run it, as far as it reasonably could be done, on commercial lines with due regard for efficiencies—and I will not say profitability because that has never been possible—but with a desire not to incur great unnecessary losses which would have to be paid by the generality of the taxpayer.

I think this was a very wise concept in all the circumstances but I do not think there is any use fooling ourselves that the railway—I will not say policies—history up to 1914 had resulted in this country having more miles of railway built than at that stage of its history it was economically capable of sustaining in anything like a commercially profitable way. If it had been possible to foresee developments, it might have been possible for wise government—it is very easy to be wise after the events—to have developed the railways in a way where a better balance would have been preserved between the needs of the country and the commercial or economic feasibility of the operations.

Now, I am very happy to say that as a result of the very wise policies that I think were followed from 1936 onward, when we began to have commercial aviation in this country, that we have profited, I think, in Canada from the lessons that we learned in the railway field. I have attempted once or twice, notably in the two statements I have made on air policy to the House, to codify this at the risk of using slightly different words but not intending to have any different sense from any I have used previously. I would say this, that it is my view and it is the view that is accepted by my colleagues and is the policy of the government to make sure that in the development of commercial aviation in this country, public carriers, since the main and predominant position has, for historical reasons which I do not think I need to go into, been taken by Air Canada, that it is our intention to see that Air Canada's position is protected so that it has enough scope for development and growth to generate enough income to make it a commercially feasible operation and to return something to the taxpayers and that decision having been taken a few years ago to permit a second transcontinental carrier, it is not the position of this government to try to extinguish that carrier, but to permit a limited measure of competition and of orderly growth for both lines, bearing in mind always the basic position that the taxpayers should not be left holding the bag.

It is also my view, in this country which I believe, for its population, generates more air traffic than any other country in the world with the possible exception of the United States, that net overall, taking all commercial operations into account, the taxpayer should not have to subsidize air carriers. When I say that I do not mean that there may not have to be subsidies paid for particular services that are in the national interest that are not self-supporting. But, I feel that enough profit should be generated by Air Canada and come into

the treasury so that there would be, in that way, the funds that would be necessary. I do not mean that there would be any separate account or anything of that sort, but that the funds would be generated out of the air traffic to provide, and in this way we would have a kind of rough balance.

Now, having said that, having referred to the historic railway service and to the new and increasingly important air service, I would like then to come to the more basic question which I dealt with briefly in the House of Commons and with which I have dealt in a couple of speeches since, notably the one I made in Winnipeg on April 27, which I commend to all the members of the Committee as a pretty fair indication of what has gone enough through my mind that I have some confidence in its formulation. I think we have to face the fact in Canada that with every service, every form of transport service, we have to ask ourselves a basic question, "Should this particular service be charged up to the taxpayers or should it be paid for by the users?" Now, I confess to a strong bias in favour of letting the users pay for the service because it seems to me that the burden is more apt, in that way, to be placed more equitably. On the other hand, I am not in favour of somebody having a toll gate at my door every morning and collecting a toll from me to use the streets of the village of Rockcliffe and the city of Ottawa because I think you would have such a bureaucracy, if you attempted to do that, that when you had paid for all the toll gathers there would be nothing left to repair the potholes, if I may dare to use that phrase.

I think the general principle is that where a service is so widely used, where it is so generally used by the generality of the population or benefits the generality of the population to such a degree that trying to charge users would just be an economic waste; it is better to have it done by the taxpayers. That is the view that has been taken with respect to most highways in this country, but not to all of them. We know that there has been an increasing development in highway traffic. I mention this because I can speak quite objectively about it; it has nothing to do with what the Committee is concerned and it is a very good illustration. Generally, highways can be used freely and they are paid for out of taxes. But we do know that in one of the provinces of this country there has been an increasing development of what are called "auto routes", a form of toll road, that this is very widely used in the United States and in many other countries and for some kinds of highway traffic it may come increasingly to be used.

We have a considerable debate—I am not unaware of it—going on in this country at the present time whether or not the use of the St. Lawrence Seaway should be paid for by the users or by the taxpayers. I suppose the views of Canadians on that subject will depend a great deal on where they happen to live and in what kind of activity they are engaged. I imagine there are a few people who can look at it utterly objectively but it is, of course, still the greatest of all the highways in Canada and also, I suppose, in some ways, one of the most expensive to maintain; it is very important that it should not merely be maintained but should be expanded rapidly enough to meet the expanding traffic, if it is to be expanded somebody has to pay for it. I am sure the members of the Committee will not think I am being biased when I say I would find it a little difficult to explain to my constituents why they should be taxed for it. Maybe they should; this is an open question on which, at the moment, I am not

expressing any views because, as a member of the government, I will have to make some decisions on this a little later and I think that until those decisions are made it would be better for me not to express any views about the answer. But I do put the question. The same question applies, of course, when we establish lighthouses; when we establish aids to navigation; when we establish ferries and with every form of service.

One of the big responsibilities of those persons who have the responsibility for determining policy with respect to transport is just answering that one simple basic question, should this or that or the other particular service that is either provided by the government or supported by the government, be paid for by the users or should it be paid for by the taxpayers?

I know there are suggestions that the dividends on 25 million acres of land should be used to pay for certain forms of transportation. That is a debate into which I prefer not to enter at this time because it only applies to a part of the transportation system in this country and, as I said, I do not think it vitally affects general transportation policy.

I want, now, to come to one other point that I think needs constant emphasis and I know this is what presents us, as politicians, with special difficulties. It is this, that any transportation service to which people become accustomed, they hate to lose—even the Ottawa streetcars; I do not know about the Moose Jaw streetcars, but I was nearly run over by one once.

Mr. PASCOE: Those streetcars were from Ottawa too.

Mr. PICKERSGILL: Well, if they were the streetcars that had been discarded by Ottawa, they must have been something when I consider the ones they still had when I first came here.

I know there were many people who felt very sentimental about the Ottawa streetcars; they were very sorry to see them go although a lot of the people who were most sentimental about them would never be caught riding on them. That is one of the difficulties that is faced in this problem that I am about to mention.

In my view, which I have expressed many times and which I expect to express many times more, the cost of transport enters into the cost of almost everything—at any rate anything that is bought or sold in Canada; I was going to say almost everything we consume but I do not suppose it adds much to the cost of the tomatoes you grow in your backyard. But apart from things that do not require any transport at all, and they are a pretty small part of the whole, the cost of transport enters into the cost of practically everything we use in this country. It enters more largely into the costs than, at any rate, it does in any other big country; therefore, it is really very important, no matter whether they are privately operated or publicly operated, that genuinely redundant services should be done away with as quickly as that could be done in an orderly way without disrupting people's lives and without disrupting communities.

That is one of the painful tasks that those charged with responsibility for transport policy conscientiously have to try to do. I know every time I try to end a subsidy on some little steamship service somewhere in the country I could probably get 255 members in the House to agree that it was a very wise thing to do but you would always get from one to ten who would think it was a national disaster; sometimes they are even cabinet ministers who take that view. It is

not an easy thing to do but, on the other hand, if we do not do it we are simply imposing charges upon the economy which really make us all poorer. That is, to my view, a basic fact of our economic life. By the same token, of course, because we have 20 million people spread, apart from two or three areas, relatively thinly over half a continent, transport looms larger in the lives and, therefore, in the politics of this country than it does in nearly any other country in the world. It is perhaps more important to us than it is to most countries to make sure that we have the right kind of policies.

I am coming more and more to feel that a very great contribution to the evolution of a wise national transport policy was made by the MacPherson Commission. It was the first of the Royal Commissions and although it was entrusted primarily with an examination of the railway problem, it did go beyond that. It specifically charged itself with the task of trying to take a look at all forms of transport and of the balancing of all forms of transport. Speaking generally, and I am not saying that I accept all the details in that report, I do think they did give us some very useful guidelines for policy. One of the most important of these guidelines was that we could not have a policy for air transport without taking account of the policy for road and rail transport and for water transport as well; in other words, that there must be an integration of transport services if we are to have good and efficient transport which we could afford, which would help to develop the country and also prevent us from putting undue burdens on the economy.

All this, of course, is far more important to us in Canada than it is to a country like the United States for this reason, that at least one fifth of our income is derived from external trade and, therefore, apart from the vast country we have, in order to derive an income also we have to produce things at a price that will provide a decent living for the producers and enable us to sell them in the world markets. That again, makes transport even more important in this country than in most.

If I might sum up then I would say that in my view the first task of a minister of transport is constantly to keep in mind the necessity of integrating all forms of transport that are under national control with a view to providing all the services that are necessary to carry the existing traffic and to develop those parts of the country which are capable of being developed in order to add eventually to the wealth of the country, without unnecessary duplication, without unnecessary waste.

The second task is to keep the services modern, up to date and to get rid of obsolete and redundant services as expeditiously as possible in an orderly way.

The third task is to strike the right balance between the imposition of charges on users and the imposition of charges on the treasury of the country, that is to say, on the taxpayers.

● (10.07 a.m.)

I believe that it will not, in the long run, be possible to do this without a very considerable measure of regulation, though I do accept the basic thesis of the MacPherson Commission that where genuine competition can exist it is probably the cheapest and most efficient of all regulators. However, our whole experience in Canada, our geography, our human geography and everything else, does make it quite clear that you cannot have unlimited competition in

almost any field of transport; that you cannot have any competition in many areas and, therefore, there is a large area where in the public interest regulation is necessary. The regulation simply must not be capricious; it must not be left to the executive; we must have judicial or quasi judicial agencies to perform these functions and I have come more and more to think that possibly on balance it would be better simply to have one such agency, although I recognize the very great difficulties in achieving that.

In regulation itself, obviously the paramount interest is the public interest but we, I think, have to be very clear when we are talking about the public interest that we are talking about the interest of the whole country and not necessarily the interest of one particular group of people in one particular locality who may be seeking in the name of the public interest to get an advantage over some other group of Canadians in some other locality. As all of us are apt to look at these things from our angle of vision—in fact it is very hard to look at things from any other angle than our own angle of vision—our concept of the national interest inevitably varies from one person and from one place to another.

Altogether, Mr. Chairman, I think I may say that whatever its complexities, whatever its difficulties, having some responsibility for what I have always called the bony structure of the Canadian body politic, is the most interesting job I have ever had up to now; however difficult it is, it is never dull.

The CHAIRMAN: Thank you Mr. Pickersgill.

Mr. BELL (*Saint John-Albert*): I have just one question I would like to pose to the minister but before I do that I would like to thank him on behalf of the Committee for coming and starting us off on the Transport estimates.

Many of the things the minister said are perhaps not new but it does help to put the overall transportation problems of this diverse country into the proper perspective.

There are two points that did come to my mind that I would like to throw out, if the minister has a minute or two. Many have said that Transport is a big department and it should be broken up. I, for one, feel that this perhaps is not so; it should not be so. This view has been strengthened by our recent trip out west. We noted the competition in different areas for recognition, as the minister said the other night, of service, whether it is air, rail or even water, and I think if the department were broken up you might have difficulty in assessing the relevant importance of the branches that might be formed so, for one, I do not agree at the moment with the contentions that are being made. I think it is an interesting experiment that we are witnessing now, with two ministers, almost, in the Department of Transport, which could be very successful. I favour this sort of a set up rather than breaking up the full department, as so many have advocated through the years.

This has also been strengthened by the many assertions that have been made of an overall transportation board and if this did come about it might be better to still have the one single ministry responsible for this. I just mention that.

The second point has been made before. I referred to it once in estimates and I know many others have said this—and again it is brought to mind because of the complexity of the department and its problems. The best the Minister

can do or even a Committee such as this is to try to tackle one problem at a time. I know a former minister came forward with shipping policies that, I am sure, took quite a while to evolve and it was successful. Matters have changed a bit but at the time it served quite a need and our minds were in that direction. So I just say to the minister not exactly by way of advice but we have our mind, I think, now more on the railway problem. I think we should all work together. The minister has asked for ideas. I do not think I could improve on any basic things the minister said in his Winnipeg speech but I could mention one or two things that are more important than others. It is really just a matter of tackling one problem and living with it because certainly you could move over to another facet of transportation and consider it is just as important. It comes to my mind that there are many reports in the department, pilotage, to mention a report which the minister administers, is on someone's desk.

Mr. PICKERSGILL: I am afraid it is in someone's mind. They have not made a report yet. The Royal Commission has been going for rather a long time. It was established by Mr. Bell's friend.—I sometimes wonder if they are waiting for another—No, I must not speak disrespectfully of the Royal Commission; I am sure they are trying to do a very conscientious job, but I do hope that it will not be too long until they finish.

Mr. BELL (*Saint John-Albert*): The only thing I can add to that is I am not sure that this person who has been referred to could even be considered my friend now.

However, there are many reports, and the point I wanted to make was that when they drag it out, no matter who is responsible, it creates a serious difficulty because many times you have to deal in an ad hoc way with matters that come up through strikes and the like and they are the main facet of the report itself.

All I suggest to the minister and the Committee, and this is my personal view, is that—to live with one problem—we seem to be more oriented to the railways at the moment—and to try to evolve something from it—is, perhaps, the best way to deal with this big ministry in such a country.

The Minister the other night made a reference that strikes me as being significant, and I am not trying to pry policy out of him. I took his phrase down but I have lost it. However, the reference was to the new railway bill that we are now envisioning. This seems to me to indicate that there is something quite different coming up and it may be quite a while. I put in the perspective of this Committee what we should be doing. We are just about ready with our interim report. I think the Committee has been quite successful and we can go on and assist the Minister. That is why I am trying to be responsible in this way.

Mr. PICKERSGILL: I should, perhaps, say a word about that. I did introduce a bill at the last session of the last Parliament and deliberately killed my own bill so that its subject matter could be considered by the Committee of that day, where they had a lot of very useful deliberations and heard a lot of briefs. In addition to that, of course, the exposure of the draft bill to the public did elicit a good deal of informed opinion from people who had something to contribute. I have been trying and the officials of my department have been trying to digest

all these views, and it has caused a very considerable reorientation of our views.

Now, I do not want to give the impression that on the basic principle we are contemplating any change at all because we are not, but in the way in which the principle will be applied legislatively we do hope we can bring in a bill—you know it is very hard in this Parliament to speculate—from the point of view of the Minister of Transport and the Department of Transport, and have it ready for late September or early October so that if the Parliamentary situation was such, should be capable of being dealt with in whatever session of Parliament we are in at that time.

It may be that that bill, in turn, would require such prolonged hearings of the Committee and take so long it would not be possible physically to get it done; but I think so far as the proposer of the bill is concerned, the way I look at it now, that is the kind of timetable I have in my mind. It may well be that this Committee in its deliberations—I think it has already done something in that regard—in the next few months will be able to contribute something to the legislation itself. What I am quite sure of is that as a result of your deliberations you will bring to the consideration of the bill a much better understanding of the problem than if you had not had the experiences you have been having in the last six months.

Mr. BELL (*Saint John-Albert*): I have just one supplementary question. Does the Minister know how the investigation into the Maritime Freight Rates Act is coming along?

Mr. PICKERSGILL: I think that very good progress is being made but I would not expect that subject to be legislated in any new way in the legislation we are now bringing forward.

Mr. OLSON: I, too, like Mr. Bell, want to express my appreciation for the statement you made respecting what might be the overall general policy or philosophy of the Department of Transport respecting a national transportation policy. But, unlike Mr. Bell, I would not like to make any apologies for trying to pry policy out of the minister.

The first question I would like to ask is how long do you think it would be until we get this integrated transportation policy, assuming that even today you are disposed to proceed with setting up this kind of an integrated administration?

Mr. PICKERSGILL: You mean before we would get an integrated agency? I hope we have an integrated policy now. You know, you have raised a very vital question. I know a lot of people laughed in the House of Commons the other day when I said that a national transportation policy was evolving from day to day but that is precisely what is happening and it is precisely, in my view, the only way it can happen. I do not think that we are ever going to get Ten Commandments on Mount Sinai about transportation because the elements you are dealing with are changing so fast. Mr. MacKenzie King and Mr. Howe laid down a policy for civil aviation in 1943 and 1944 and it proved, I think, to be a very good policy for this country for about 20 years, but I do not have any such high ambitions. I do not think I can guess what would be all the elements of the right policy for another 20 years. On the other hand, so far as the external aspects of civil aviation are concerned, that policy was settled last year

and settled, in my view—I am really quite proud of the settlement that was made—very satisfactorily and was very much in this country's interest. There is a new relationship between the two, inter-Canadian and international carriers, that there certainly was not before and the whole country is benefitting from it, I think.

Mr. OLSON: Mr. Pickersgill, I will just give you one or two examples to impress on you why we are so keenly interested in this. For example, in Medicine Hat, about three years ago there was a hearing before the Air Transport Board to withdraw the air service and I am sure that one of the reasons that persuaded the Air Transport Board to allow this withdrawal of service was that at that time Medicine Hat was being served very well by railway transport, both for passengers and for express and baggage and what they now refer to as merchandise service. So the air transport was withdrawn; there was none. Now, and since then because of these ad hoc changes without any relationship between the two, 50 per cent of the railway service is gone too, both for passengers and express. It leaves us in a position of having to try to hang on to what little we have or what we consider is essential because there is no relationship between the two, either one or the other, or whatever they are using. Therefore, until this happens, it seems to me, until there is this integrated authority or whatever you want to call it, we are going to have these ad hoc changes that are going to leave many communities in Canada without adequate service of one form or another. It seems to me that until we have an indication that this is going to proceed rapidly, all these communities are going to resist any withdrawal of service that does not fall into this area where the user can pay a reasonable portion of the cost of that service.

You suggested you were becoming more and more in agreement, I think you said, with the general philosophy of the MacPherson Report. I was wondering if, perhaps, even though that philosophy may still be valid in 1966, if the requirements for transport that would be needed within that philosophy may have changed substantially since 1958 and the period prior to 1958 which, I suggest, is the period that the MacPherson Royal Commissioners were considering when they made their report.

Mr. PICKERSGILL: I think that one should distinguish very clearly, Mr. Olson, between the philosophy in the MacPherson Report and their observations about the facts of transport life at the time that report was prepared because we have today, of course, substantially more traffic on all forms of carriers than anybody making projections from the date that report was produced would have believed possible. One of the great problems is going to be to decide whether you want me to make those projections in a straight line upward or whether you will have to anticipate that the line will flatten out a bit at a certain point. This is a very great problem of judgment. I do not think you can accept the facts as they were at that time and attempt to base practical decisions on the set of facts at that time.

But when I was referring to their philosophy, I was referring to the desirability of allowing a larger measure of competition than had been allowed in the past to determine rates and to do the regulating so that the regulatory authority could concentrate on those areas where, as you say, a genuinely commercial service may not be possible but where there is a national interest or a regional interest of national importance to be served.

Mr. OLSON: Mr. Pickersgill, I have just one other question. In this idea of "use or lose", taking Air Canada for example, do you think that this "use or lose" principle should be applied to all routes and to all services from point A to B?

Mr. PICKERSGILL: I must say I find it very hard to defend any service that nobody uses. Use or lose means use or lose; it does not mean pay or lose. It means use or lose. If you get a reasonable amount of traffic, for example, in some development route even though it is not enough to pay for the route and the community that is developing is indirectly providing economic advantages so that the balance, everything taken into account, is on the right side nationally, then there is no reason why the carriers should not lose a certain amount and a subsidy should not be paid for that service.

To take one specific recent case that I have referred to several times in the House, the air service between Yorkton and Saskatoon where they have 1.6 passengers per flight, although it was not 60 per cent of a human being on any individual flight—that is the way they express it—I would have found it almost impossible to defend the continuation of that service at all because the 1.6 people could pretty nearly get a private aeroplane if they wanted to go because that is what you were virtually providing them with. On the other hand, you get a service to some northern mining community, for example, where there has to be service because it is the only way to get there, where the community is developing and one of these days it is going to be self-sufficient in every way even though during the development period it is not, and where there are a lot of passengers being carried, this seems to me to make very good sense, in the national interest.

Mr. OLSON: I am pleased to hear you—

Mr. PICKERSGILL: I am very glad that you gave me the opportunity to say that use or lose does not necessarily means pay or lose.

Mr. OLSON: I am very pleased that you said that, because Air Canada really does have a responsibility to provide air service for all of Canada and not just for major cities. Do they not?

Mr. PICKERSGILL: We are wrestling with this whole question of a regional air policy and it is about the toughest question I have had to deal with.

Mr. OLSON: Would you care to make any predictions as to when the regional air policy will be brought into the House?

Mr. PICKERSGILL: I think it would be hard for me to bring in new legislation about railways before the general principles on which it is to be base have been determined.

The CHAIRMAN: Gentlemen, I have quite a number of questionners and it is now 10.30. We are adjourning at 11 so I would ask you to summarize your questions in a more concise way.

Mr. BELL (*Saint John-Albert*): Are we going to deal with the interim report too?

The CHAIRMAN: If there is time.

Mr. PICKERSGILL: If the Committee wants to resume after lunch I am prepared to come back.

Mr. ALLMAND: Mr. Pickersgill, regarding your statement that you favour transportation services being paid by the users primarily, I presume by this you would consider the user as the person who obviously pays the freight charge or the passenger ticket. I am just wondering how fair that is. If we take an example, say people around Montreal who might sell material to a producer; the producer produces the product; he then gives the product to the distributor who sells it, puts it on a railway and sends it maybe to Chapleau, Ontario, or many other parts of Canada and the retailer sells it to the public. According to that principle, the user would be, let us say, the shipper who would pay the freight charge and pass it on to the consumer. But who has benefitted from that rail line? The retailer has; the producer has and the people who supplied the producer has. It would seem to me that there is maybe a bit of inequity in having the consumer and the retailer or the shipper just pay for that transportation service because many people are benefitting from it. When we build a railway line or an air line or road we are extending the market. It would seem to me that when you extend a market many, many people benefit and those people should pay the cost of extending the market. It is extended in many directions.

I was going to ask you, first of all, who do you really consider are the users, the person who obviously pays the price, and what about this counter argument that rather than have the users pay, those that benefit should pay?

Mr. PICKERSGILL: If you are right, of course, that many of the people who pay the original charges pass them on to somebody else, it is still the people who are benefitting from the service who pay. If you do not charge for it, then it is all the taxpayers who pay regardless of whether they have any geographical, economical or other connection with the service. That is why I take the view that the taxpayers should pay only in cases where getting the users to pay is so stupidly expensive and where the benefit is so widespread. I will give you an example outside the transportation field altogether. In the early days of radio in this country we had a license fee because only about ten percent of the population had radios; but when we reached the point where 90 per cent of the people had radios, it was just as sensible to pay for it out of taxes as it was out of the license fees—it cost about \$1 to collect every \$10 license fee, which meant it was a rather expensive way of getting the revenue. I think that is the kind of thing you have to bear in mind.

● (10.32 a.m.)

I will give you another example. I am taking these examples outside the federal field because it is much easier; I do not have any bias and it is no affair of mine. The Ontario government has decided to subsidize a commuter service running from Oshawa to Hamilton through Toronto and that is going to be charged against all the taxpayers in Ontario, even the people in Ottawa. You might think that was very unfair but their argument is that it is cheaper to subsidize that commuter service and put a good commuter service on than it would be to put two extra lanes on the Queen Elizabeth Highway, which all the people of Ontario would have to pay for, or maybe four extra lanes. Therefore,

that is the kind of thing that you can quite easily justify. But I think that where the charge can be collected economically and where the benefit is relatively restricted to one section of the country or one section of the population, it is a simpler, better and more equitable way of meeting the charges.

Mr. ALLMAND: But my point was that all the taxpayers do benefit. You gave the example once before that why should somebody in Nova Scotia pay for a rail line out in Saskatchewan. My point would be that maybe the Nova Scotia steel mill sells to the producer in Montreal who sells his product eventually in Saskatchewan and, therefore, everybody in Canada is benefitting.

Mr. PICKERSGILL: We all benefit from economic growth but we do not all benefit equally. We all pay taxes but we do not all pay equal amounts of taxes. I am just saying that taken in a rough sort of way, I think that where it can be collected from the users it is probably, on balance, more equitable than just putting it on a generality per cent. Also, it is more apt to be economical; if the service is charged against everybody, it is the concern of nobody all too often. When there is a specific charge, well, it has a kind of restraining effect upon extravagant demand. I think that is another rather important point.

Mr. ALLMAND: I would like to ask just one final short question. Regarding the co-ordination of transportation services in Canada, I notice that the trans-Canada Highway legislation and other highway legislation are not under the Minister of Transport; they are under, I think, the Minister of Northern Affairs.

Mr. PICKERSGILL: Insofar as the building of the trans-Canada Highway is a federal matter—and it is not; it is being built by the provincial governments; but insofar as its supervision is concerned this is done by the Highways Branch of the Department of Public Works because it is a construction business. Once the road is built the federal government has nothing more to do with it. Therefore, it would not be logical to have the Department of Transport concerned with it. It is really a construction job.

Mr. ALLMAND: Will the Department of Transport have any policies in the future on national highway programs as they do in the United States?

Mr. PICKERSGILL: I think that is a question that I could not possibly answer because the policy in a field which is primarily within the provincial jurisdiction will depend upon negotiations with the provincial governments in an area on which there are very many and varying views. There is one other field, of course, where the federal government has a responsibility and that is for the regulation of interprovincial and international road traffic and that is a very complicated problem that is engaging our attention now.

Mr. FAWCETT: Mr. Chairman, Mr. Pickersgill, your last answer to Mr. Olson pretty well summed up the crux of what I was going to try to get at. I think I understood you to say that some aspects of competition do not necessarily mean more efficient service. I would take from that that you would mean, for instance, that to permit Canadian Pacific Airlines for instance, to operate over the same route as Air Canada, would not necessarily mean that you would have more efficient operation; in fact, conversely it could mean that you would have less efficient operation. Is that what you meant?

Mr. PICKERSGILL: What I meant by this is that I think that in this field where the fixed costs are so great compared with the variable costs—you are familiar with that term—that if you get your fixed costs up too high everybody is going to lose. Air Canada has a certain structure and if it is going to be successful the amount of competition has to be controlled. That is all there is to it. It is not like the grocery business where the turnover compared with the fixed capital is great.

Mr. FAWCETT: From what we heard at one of our hearings, I would say this could apply with different modes of transportation because I understand at one point that bus service was inaugurated over an area that was covered by a dayliner and they cut their fares—correct me, now, if I am wrong—and as a result the dayliner was taken off and when the dayliner was taken off, the bus service was discontinued. Would you not say that there are great areas in this country where it would be better if perhaps competition was not permitted under some circumstances?

Mr. PICKERSGILL: You will notice in our railway Bill that was introduced last year, we are providing that the railways over which we have unquestioned jurisdiction will not be permitted to charge non-compensatory rates for the carriage of freight; in other words, the railways are not going to be allowed to extinguish competition and create a monopoly. I think perhaps, that should apply across the board. It certainly is not in the public interest to have rates that are not compensatory charged by someone who is economically powerful in order to create a monopoly where you can then stick the public. That is another argument, I might say, for what Mr. Olson and I both seem to feel has a lot of merit, that is to say an integrated authority.

Mr. FAWCETT: The only other question with which I was concerned was the one that you answered for Mr. Olson. Although I was born on the prairies I was never so impressed with the vast areas where there is such a small population as there was when we made our tour across the prairies, and I could not help but think, to provide a necessary service to some of these areas so they would have service of some kind, that subsidization might have to enter into the picture.

Mr. PICKERSGILL: In some areas there is no question that it will have to enter into the picture.

Mr. FAWCETT: That is all I have to say.

Mr. CANTELON: Some of the things I have been thinking about, of course, have been covered, too. This is commonly so. I was impressed, as usual, by the lucid explanations given by the minister. I think he has given us a very clear explanation of what the philosophy of the Transport Department is while he is operating it.

I am concerned with what Mr. Allmand was talking about regarding highways and in particular the one area of which I know where a railway has been abandoned and grants are being received from the department to build a highway. Is this a general policy where abandonments will take place?

Mr. PICKERSGILL: We did decide about two and a half to three years ago that where there was a branch line, a Canadian National Line, for which we

have to pay the losses, which was obviously going to lose money for a long time but which served a community with inadequate highway service and where by helping to provide a highway we could cut our losses, that it would make good financial sense to say that the federal government would make a capital grant to the original construction of a highway to take the place of that branch line on condition that the provincial authority would not oppose the immediate abandonment of the line when the highway was completed. There is a specific line in New Brunswick to which this formula has been applied. I am speaking from memory, but Mr. Baldwin will listen and correct me if I am wrong, and I think the formula we followed was we capitalized the losses over a projected period if the line was kept in operation and we then said that one third of the savings should go to the treasury and the other two thirds will be applied to the building of the highway.

Mr. BELL (*Saint John-Albert*): That is about what the provincial government in Ontario is doing in reverse.

Mr. PICKERSGILL: Yes.

Mr. BELL (*Saint John-Albert*): A different formula of this.

Mr. PICKERSGILL: Yes, that is right and it seems to me to make very good sense. This does not mean that we would consider doing this where the railway already had been made redundant because a good highway had already been built; the highway would really put the railway out of business. We do not think we should have to pay anything in that case for the abandonment. But in some of these cases there are quite a number of these branch lines in various parts of the country where there still are no roads and they are the only effective means of surface transport where this could be applied.

Mr. CANTELON: Of course, there are many areas where there are roads but if you take the railway out you are going to find, particularly people who are trying to move grain, they are going to have a great deal of difficulty. They would have to move it over quite inadequate roads.

Mr. PICKERSGILL: I would see no reason why this should not be applied, more generally.

Mr. CANTELON: I see the chairman is making signs at me so I will leave it at that.

Mr. REID: Mr. Pickersgill, I would like to ask a few more questions on regional air carriers. It is my understanding that Air Canada no longer is involved deeply in regional air service. I think there are one or two lines they do operate.

Mr. PICKERSGILL: There are one or two that you might regard as certainly not main line operations.

Mr. REID: Now, the idea here, as I understand it, was that there was to be a system of regional air lines built up which were to act as feeders to the trunk.

Mr. PICKERSGILL: If you do not mind my doing a little thinking aloud without it being said that I am trying to outguess myself, I will say the great argument, in my view, for having regional carriers—instead of having Air

Canada having a regional or branch line service—is that a large part of the success of airline operations—and this is perhaps truer in the part of the country I represent now than in the part of the country where I was brought up because the weather is more variable on the Atlantic coast than it is in Manitoba or even as far east as Kenora; nonetheless it is variable all over Canada—and if you have an air carrier with its headquarters in Winnipeg that is interested in a relatively small area, where the head of the company knows all the problems of every part of it, you are going to get, I suggest, better service whenever there is an emergency and there is quite often. They can adjust things quickly whereas if you have to get somebody, the regional supervisor, say, going to Montreal for his orders about this or that, you are going to have much more inflexibility in the service. I think that is one of the arguments.

The other argument is that these regional carriers, to be at all successful, are going to use an entirely different kind of aircraft from the main line carriers. If we can find some means, so far as is reasonable and sensible, of having the regional carriers or several of them use the same kind of aircraft so we can get the advantages of economy of scale, I think we will get better service. Also, though I say this rather hesitantly, I think people would be more apt to accept readily standards of service that if Air Canada gave them they would complain. They would say, well they give them a better service between Montreal and Toronto than they do on this branch line. There is going to be a more intimate relationship between the customer and the airline in the case of the regional carriers. I think that is the main argument for it.

Mr. REID: Then you come to the matter of cost. They now claim that these big jets are so efficient that they can be run at a fraction of the cost of an ordinary piston driven aircraft. For example, the DC-9, I understand, costs about 23¢ a seat mile.

Mr. PICKERSGILL: It just depends on whose cost it is, does it not, Mr. Reid? It may be operated at a fraction of the cost if the airfields are provided free but if we have to build airfields for jets for all these local services, I am not so sure.

Mr. REID: I was not thinking in terms of your building airports for these jets. I was thinking in terms, perhaps, of some sort of subsidy that would bring the cost of the regional air carriers down to a more manageable one.

Mr. PICKERSGILL: That is one way of approaching the problem and it is certainly one of the ways about which we are thinking.

The CHAIRMAN: Gentlemen, I have other questioners; however, the minister has indicated he would come back. I would like to deal with this interim report this morning if there is any indication.

Mr. CANTELON: I gave up my time thinking you were going to call us all again.

The CHAIRMAN: Well, I went around twice. I am not calling the others. If you will check you will notice that every party was on the first round.

Mr. PICKERSGILL: Would you like to set a time when I could come back?

The CHAIRMAN: Is two o'clock suitable for you.

Mr. PICKERSGILL: Two o'clock would be very satisfactory for me. I had been invited to go to the Treasury Board at two but they have let me off.

The CHAIRMAN: We do not have permission to sit this afternoon. Our permission only extends to next Tuesday all day and next Thursday all day but not for this afternoon.

Mr. OLSON: Is not this just one sitting for the minister to come next Tuesday morning?

Mr. PICKERSGILL: We have cabinet meetings regularly every Tuesday and Thursday mornings and, unfortunately, the kind of things that are being considered in Cabinet these days nearly all concern me.

The CHAIRMAN: Gentlemen, do you think we can leave it that we can recall the minister for further questioning?

Mr. PICKERSGILL: I wonder if there would be any problem about sitting at two?

Mr. BELL (*Saint John-Albert*): Would it not be better to let us begin and we could sort out the matters on which there seems to be a bit of a policy problem and then we could have the minister back for a short period.

Mr. PICKERSGILL: I was going to make a suggestion to the Committee, if I might. If it is agreeable to the Committee, I would not appear again while you are discussing the details of the estimates but any question that the deputy minister or the other officials felt is the kind of question that the minister should answer, should just be noted and I would come and deal with these noted questions and any others, at the end of the estimates.

The CHAIRMAN: Gentlemen, I wonder if we could let Vote 1 stand and move on to Vote 5? We will get right into the departmental estimates on Tuesday morning and then we can question the minister on any policy statements.

Mr. PICKERSGILL: Will you excuse me?

The CHAIRMAN: Is that agreed? Will you just hold your seats.

Thank you very much, Mr. Pickersgill.

I would just like to bring to your attention that on next Tuesday at 9.30 the deputy minister and the officials will be here, starting on the marine services. The whole department will be here dealing with everything on marine services so you can question generally on it.

Therefore, Vote 1 will stand and we will move on to Vote 5 on Tuesday morning and the minister will be subject to recall on Vote 1.

With regard to the interim report, the subcommittee had a meeting yesterday afternoon. We arrived at a number of consensus. I drew up a report on what Mr. Olson and I thought and these have been checked with Mr. Bell and Mr. Andras. I will read Mr. Olson's first of all.

Mr. OLSON: Mr. Chairman, there will be no need for reading the draft that I brought down because the essential parts of it are all in the one you drafted.

The CHAIRMAN: Very well, I will read from the one I drafted. This is just a draft and not the final report. We will polish up the wording.

On Tuesday, February 8, 1966, the House of Commons did send the following reference to the Standing Committee on Transport and Communications, that the subject matter of the adequacy of the present program of future plans for passenger service on the lines of the Canadian Pacific Railway to meet the effective demand of the public for such service and the effect of such program and plans be referred to the Standing Committee on Transport and Communications for their consideration and report.

Before I continue I think perhaps what follows should not be recorded.

Gentlemen, the meeting is adjourned until Tuesday, June 14, at 9.30 a.m.

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OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

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LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament
1966

STANDING COMMITTEE

ON

TRANSPORT AND COMMUNICATIONS

Chairman: Mr. JOSEPH MACALUSO

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 20

TUESDAY, JUNE 14, 1966

Respecting

Main Estimates 1966-67 of the Department of Transport

WITNESSES:

From the Department of Transport: Messrs. J. R. Baldwin, Deputy Minister, G. A. Scott, Assistant Deputy Minister, (Air Services), G. W. Stead, Assistant Deputy Minister, (Marine Services), F. L. Worrall, Chief Financial Officer, (Marine Services), J. R. Strang, Director, (Shipbuilding), R. R. MacGillivray, Director, (Marine Regulations), H. J. Darling, Chairman, (Canadian Maritime Commission), D. M. Ripley, Director, (Marine Hydraulics), R. W. Goodwin, Director, (Civil Aviation), C. W. Rump, Secretary, (Board of Transport Commissioners), L. R. Talbot, Vice-Chairman, (National Harbours Board).

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE
ON
TRANSPORT AND COMMUNICATIONS

Chairman: Mr. Joseph Macaluso

Vice-Chairman: Mr. H.-Pit Lessard

and

Mr. Allmand,	Mr. Fawcett,	Mr. Reid,
Mr. Andras,	Mr. Horner (<i>Acadia</i>),	Mrs. Rideout,
Mr. Ballard,	Mr. Howe (<i>Wellington-</i>	Mr. Rock,
Mr. Bell (<i>Saint John-</i>	<i>Huron</i>),	Mr. Saltsman,
<i>Albert</i>),	Mr. Hymmen,	Mr. Sherman,
Mr. Byrne,	Mr. McWilliam,	Mr. Southam,
Mr. Cantelon,	Mr. MacEwan,	Mr. Yanakis—(24).
Mr. Carter,	Mr. Olson,	
Mr. Deachman,	Mr. Pascoe,	

(Quorum 13)

Maxime Guitard,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, June 14, 1966.
(36)

The Standing Committee on Transport and Communications met at 9:40 o'clock a.m. this day. The Chairman, Mr. Macaluso, presided.

Members present: Messrs. Allmand, Andras, Ballard, Bell (*Saint John-Albert*), Byrne, Cantelon, Carter, Deachman, Fawcett, Howe (*Wellington-Huron*), Hymmen, Lessard, Macaluso, MacEwan, Pascoe, Reid, Rock, Southam and Yanakis (19).

In attendance: From the Department of Transport: Messrs. J. R. Baldwin, Deputy Minister; G. W. Stead, Assistant Deputy Minister, (*Marine Services*); J. R. Strang, Director, (*Shipbuilding*); R. R. MacGillivray, Director, (*Marine Regulations*); F. L. Worrall, Chief Financial Officer, (*Marine Services*); H. J. Darling, Chairman, (*Canadian Maritime Commission*); D. M. Ripley, Director, (*Marine Hydraulics*).

The Chairman opened the meeting.

The Committee resolved itself into an "*in camera*" meeting to consider a draft interim report.

On motion of Mr. Lessard, seconded by Mr. Cantelon,

Resolved on division: That the draft Interim Report be adopted as read, and that the Chairman be instructed to present same accordingly.

Then the Committee resolved itself into an open meeting to resume its consideration of the 1966-67 Main Estimates of the Department of Transport.

The Chairman having to leave, the Vice-Chairman, Mr. Lessard, took the chair.

Items Nos. 5, 10 and 15 were severally carried.

Item No. 110 was allowed to stand until Thursday, June 16, 1966.

On Item No. 20: the examination of the witnesses continuing, at 12:00 noon, Mr. Howe (*Wellington-Huron*) moved, seconded by Mr. Cantelon,

That the Committee do now adjourn until 3:30 o'clock p.m. this day.

AFTERNOON SITTING (37)

The Standing Committee on Transport and Communications reconvened at 3:40 o'clock p.m. this day. The Vice-Chairman, Mr. Lessard, presided.

Members present: Messrs. Andras, Byrne, Cantelon, Carter, Deachman, Fawcett, Howe (Wellington-Huron), Hymmen, Lessard, MacEwan, Pascoe, Reid, Rock, Southam and Yanakis (15).

Also present: Messrs. Cowan, Richard.

In attendance: From the Department of Transport: Messrs. J. R. Baldwin, Deputy Minister; G. A. Scott, Assistant Deputy Minister, (Air Services); R. W. Goodwin, Director, (Civil Aviation); M. E. Burwash, Director, Economics and Accounting Section, (Board of Transport Commissioners); and C. W. Rump, Secretary, (Board of Transport Commissioners); L. R. Talbot, Vice-Chairman, (National Harbours Board); and H. J. Darling, Chairman, (Canadian Maritime Commission).

The Vice-Chairman opened the meeting.

The Committee resumed its consideration of Item No. 20 of the Main Estimates 1966-67 of the Department of Transport.

Items Nos. 20, 25, 30, 35, 40, 75, 80, 82, 103, 104 and 105 were severally carried.

On motion of Mr. Deachman, seconded by Mr. Cantelon,

Resolved unanimously,—That Item No. 100 be allowed to stand until Thursday, June 16, 1966 when Mr. H. A. Mann, Chairman of the National Harbours Board, appears before this Committee.

On motion of Mr. Pascoe, seconded by Mr. Carter,

Resolved unanimously,—That the document intituled: "Comparative Statement of Pilots' Earnings and Workload", tabled by Mr. J. R. Baldwin, Deputy Minister of Transport, be printed as an appendix to this day's Minutes of Proceedings and Evidence. (See Appendix A-7).

At 5:30 o'clock p.m., the Committee adjourned on motion of Mr. MacEwan, seconded by Mr. Byrne.

Maxime Guitard,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, June 14, 1966.

The CHAIRMAN: We have with us today, to assist us with the estimates, Mr. J. R. Baldwin, the Deputy Minister of the Department of Transport. As we reach certain departments, Mr. Baldwin has with him various members of the staff of the Department of Transport, and if it is necessary, on questioning certain aspects of the estimates, they will be called upon by Mr. Baldwin to assist him.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, may I ask this for the record? Was it two years ago, Mr. Baldwin, that we went over the departmental estimates in a detailed way? This is so that we have an idea of how far back we should go?

Mr. J. R. BALDWIN (*Deputy Minister, Department of Transport*): Do you mean in the special committee, or in the House?

Mr. BELL (*Saint John-Albert*): In the House.

Mr. BALDWIN: I would say two years ago.

Mr. BELL (*Saint John-Albert*): Two years ago? Thank you.

The CHAIRMAN: We stood Vote number 1. We are now at Item 5, Marine Services.

DEPARTMENT OF TRANSPORT

Vote 5 Marine Services, \$91,092,100

Shall Item 5 carry?

Mr. MACEWAN: I have a couple of questions, Mr. Chairman, regarding Canadian coastguard which comes under Vote 5.

I want to ask Mr. Baldwin about a question which I placed on the order paper regarding the proposed new coastguard vessels. The answer which I received earlier in this session was that tank tests and other design studies were in progress, and it was also stated that it was planned to call tenders for the first ship in the series early in the new fiscal year. I would like to ask Mr. Baldwin if these tests have been completed, if the specifications and plans have been made up for this first ship and, if they have, what are the length and details on it.

Mr. BALDWIN: You would like the details on the nature and size of the ship?

Mr. MACEWAN: That is right.

Mr. BALDWIN: Could I ask the director of the shipbuilding branch, Mr. Strang, to give this to you? He is virtually at the stage of the tender call on the first one and I think in a position to give a detailed answer on this.

Mr. J. R. STRANG (*Director, Shipbuilding Branch, Department of Transport*): Mr. Chairman, the specifications are being finalized now. We expect them to be completed within the next two weeks. They will then be printed, and we hope that tenders will be called the first week of July.

We have been doing extensive model testing in all the types of weather which the men encounter on the east and west coast, in order to build ships which are suitable for those coasts.

These tests involve, of course, wind tunnel tests and sea keeping tests, habitability, manoeuvring, speed and the ability, of course, to act as a stable platform while performing a rescue. In other words, there is quite a lot of extensive testing which has gone into this.

We expect the final design, in point of fact, to be 211.5 feet between perpendiculars, about 230 feet overall, that is including, of course, the shape of the bow and the stern, with a breadth of 35 feet, a depth of 20 feet and a draft of approximately 17 feet. We are aiming at an operating speed of 19 knots in fair weather.

Mr. MACEWAN: Mr. Strang, will the tender call be done on a national basis, or a regional basis?

Mr. BALDWIN: We have a line of these coming, Mr. MacEwan; at the present time we expect to build six. This could even be increased.

The first ship will be a lead ship in which we will set down, we hope, certain design requirements and management line of production flow arrangements which will govern the pattern for the other five.

The decision on whether all five will be called on a national basis, or whether it will be on a regional basis in the sense that we call some in the east and some in the west, has yet to be taken by the minister.

Mr. MACEWAN: Taken by the minister?

Mr. BALDWIN: By the minister; this would be it. At the moment we are concerned only with getting this first one going.

Mr. MACEWAN: The first ship?

Mr. BALDWIN: Yes.

Mr. MACEWAN: I have just one other question, Mr. Chairman. In reply to question number 680 on the order paper I asked regarding the new type of lifeboat for the Coastguard, and I was advised that the purchasing action had commenced and delivery was proposed in November of this year, from the United States coastguard; and also that this lifeboat was of steel construction, and I was given the details. I was wondering why this lifeboat is being purchased from the United States and why it could not have been made in Canada?

Mr. STRANG: Well, Mr. MacEwan, the boat itself was developed by the U.S. coastguard and various lifesaving bodies throughout the world have tried this particular aspect of a self-righting boat—an unsinkable boat—in all types of weather.

On investigating the various types throughout the world we found that the U.S. coastguard 44 foot boat was, in point of fact, the most practicable for our service.

The thing is this, of course, that we are buying one to evaluate it, and if we find it is as successful as it is claimed to be, then, of course, the program will go ahead with authority to build similar boats for our own use.

Mr. MACEWAN: I see.

I have just one other question, Mr. Chairman. In the minister's original statement regarding coastguard service, he mentioned the setting up of lifesaving stations. I am thinking particularly, of course, of the Atlantic area where the storms have proven to be very serious. I believe the minister in his statement mentioned something about the fact that it would be on a co-operative basis with local authorities, and so on. Of course, you have to get the lifeboat first, but has anything been done to contact any local authorities on the matter of these lifesaving stations?

Mr. BALDWIN: Not as yet, other than general review and consultation with our marine search and rescue officer in the Maritimes with regard to possible locations and the original discussions which we did have with several groups from southern Nova Scotia following the *John and Judy* incident which gave us some leads on the approaches to this matter.

The basic plan, Mr. MacEwan, is to have a small permanent staff, possibly one or two men on full time salary, with the rest, we hope, drawn in locally. But the final decision on location of the various stations of this sort has not been taken, although we have broad ideas according to areas.

Mr. MACEWAN: Thank you.

The CHAIRMAN: Are there any further questions on shipbuilding while Mr. Strang is here?

I should just point out to the Committee that the marine services Item 5 with which we are dealing, deals with these headings: Shipbuilding; ship operations, which includes icebreaking; arctic supply; search and rescue; aids to navigation and harbours; marine regulations, which includes pilotage; steamship inspections and marine hydraulics and the St. Lawrence Ship Canal.

Perhaps we can now move on to ship operations. Are there any questions on ship operations?

Mr. ALLMAND: Mr. Baldwin, I forget the names of the ships which were involved in the collision in the St. Lawrence last year, but I thought an investigation had been undertaken to look into the causes of that collision and the previous one. I was just wondering what the status of that is.

Mr. BALDWIN: There were two investigations which were carried out by members of the bench. There were two major accidents; these are probably the ones you have in mind.

The results of those investigations were made public some weeks ago, actually.

Taking the two together, there was a combination of factors that were involved in each case and a series of recommendations were made at which the department has been looking—the question of speed of vessels in bad visibility and the question of aids to navigation, and so on.

We could, if you like, summarize the main points made from those two investigations, or, alternatively, we could tell you a little about the general

approach to the question of marine safety on the St. Lawrence, which the department has been making through a series of meetings with interested parties in Montreal—whichever would be most helpful.

Mr. ALLMAND: I brought up the question because of the interest of the public in Montreal, and, more particularly, to find out what action the department might take to implement these recommendations.

Perhaps you could mention them briefly and let us know what you intend to do, what your plans are?

Mr. BALDWIN: From the point of view of marine safety, these recommendations, along with quite a number of other matters which we have been studying and which have been drawn to our attention, have been put into what I might call the marine safety program in the St. Lawrence, which has been developed through departmental work on its own, and a series of meetings with interested parties. By "interested parties" I mean the ship owners and operators, both domestic and international; the pilots; the unions; the underwriters; and, generally, all interested groups.

We have segregated the problems which were involved in a series of headings. After a general meeting with all concerned in Montreal, to review all of these, we have been proceeding with special meetings on each of these headings. Two of these meetings have already taken place, and three more will take place in the course of the next four or five months in an attempt to explore each of these items and decide what is the most fruitful approach to ensure that everything reasonable and possible is being done with regard to safety in the river.

The first meeting dealt particularly with communications and traffic control, and we had plans in hand before that, which have been accelerated since, to introduce a rather comprehensive system of improved communications and marine traffic control which will carry right from deep water up to Montreal.

We have already improved communications for those ships which do not have a radio call on board. We are providing DHF sets at the pilotage station at Les Escoumins to be put on board, and this sort of thing.

The traffic control organization, which will have to start and grow because you have to get people accustomed to using this, is coming into being now. A director has been appointed and is now in Montreal and is working closely with a similar movement by the Seaway to set up a similar system between Montreal and the Welland.

The second meeting which took place dealt particularly with channels, and discussed extensively what sort of work was needed with regard to channel availability from Montreal down, to make sure that the capacity was adequate for the volume of traffic which has been developing.

Such questions as two channels in certain areas were discussed, as distinct from the possibility of having a wider single channel; the question of opening up the old channel that has been closed lower down on the river.

The group was taken to see the very extensive model testing which we have going on at the marine hydraulics laboratory in Montreal, which is designed to assist us in reaching conclusions on these matters.

Further meetings will deal with such questions as what is the best method of developing training for the personnel involved and the standards of seamen, and things of this sort.

We expect that these meetings will carry us through into the autumn, and arising out of all of these we hope there will be an immediate change to improve training conditions. This takes a little time and needs the co-operation of other departments, or provincial governments and so on.

We are already spending quite a lot this year on additional aids to navigation in the St. Lawrence, because one of the reports which you mentioned drew attention to the fact that apparently there has been a movement in one of the department's aids to navigation in the river between Quebec and Montreal. It has now become apparent that, under certain conditions of ice, even the most heavily constructed type of pier can be shifted by ice. We are, however, spending quite a lot of money on certain of the fixed aids in there this year, the Brulé bank piers for example.

I could probably add a few other things. I do not know if this has covered the questions adequately.

Mr. ALLMAND: I remember that one of the main allegations against one of the ships involved in that collision was excessive speed. I am wondering if there have been any new regulations curtailing speed.

Mr. BALDWIN: This is a somewhat difficult matter to deal with by regulation except the regulation that requires care and safety in terms of speed, because this is a relative quantity depending on the type of ship and the type of water that you are in. One ship moving at eight knots may cause, shall we say, a heavier wave condition in the water than another ship moving at ten, purely because of the design of the ship; and speed has also to be related to weather conditions, width of channel and things of this sort.

It is quite clear that in some of the accidents which have taken place, whether it was the responsibility of the master or of the pilot—in some of the inquiries it has been put on both—there has not been enough slowing down by the vessels concerned in conditions of bad visibility—fog conditions. We think that, apart from a general regulation against excessive speed in such conditions we will make some progress in control through the development of the marine traffic control system, because this does mean knowledge of times at various points. This is probably the best method of getting at it.

In the longer run, too it may be necessary to develop some patrol activities on the river itself. These are no use to you in conditions of bad visibility, obviously, but under conditions of good visibility this may be of value. This overlaps as you might well imagine, the search and rescue function; you can combine certain aspects there.

Mr. ALLMAND: I have another question, Mr. Chairman, but I do not know whether it is in order. I was going to ask Mr. Baldwin about the progress with respect to the plans to build a passenger terminal at Montreal harbour. I do not know if that comes under this.

The CHAIRMAN: That comes under the Harbours Board.

Mr. BALDWIN: You may be interested, sir, to know that while we have not taken this step, the director of our coastguard operation has suggested in this

same context that we consider the possibility of trying a hovercraft, for a trial period, as a possible patrol vessel for the type of thing in which you are interested.

Mr. ALLMAND: For safety purposes—

Mr. BALDWIN: Well, patrol purposes, which would combine such things as checking on vessel speed, search and rescue, and safety generally.

Mr. ALLMAND: Thank you.

Mr. HOWE (*Wellington-Huron*): I do not know whether any questions on the passenger services which have been eliminated on the Great Lakes come under this vote.

Mr. BALDWIN: Under which?

Mr. HOWE (*Wellington-Huron*): Passenger services which have been eliminated on the Great Lakes by the Canada Steamship Lines, the passenger service on the Saguenay and the one from Port McNicoll to Port Arthur. Are these going to be completely discontinued, or are there any plans to assist in providing ships to continue this service? It was a nice service; I think it was attractive to tourists; and I think it is something about which we should be thinking, regarding some means of continuing it.

I think probably one of the reasons they were curtailed was because your regulations became so stringent as a result of the *Noronic* disaster a few years ago. I remember being on that boat myself many years ago, and wondering about the varnish on the walls and things like that.

Are there any plans, Mr. Baldwin, with regard to ways and means of continuing or renewing these services?

Mr. BALDWIN: Not that I am aware of, in the sense of a government-sponsored movement to set up true passenger cruise operations.

The problem is very much as you described it. We had in several areas some very old passenger vessels which were admittedly providing a very attractive service—we were all very sorry to see it disappear—but which were so far out of line with all modern safety standards, in terms of fire risk and other hazards and so far out of line with the International Convention to which we adhere in regard to this, that we were worried about how long we should permit this situation to continue. After the *Noronic* fire we did ask the owners of these vessels to take certain steps to improve the standards—even then still somewhat below accepted standards—and we made it clear that this would be a temporary arrangement only. It went on for about 15 years.

The difference between the normal regulatory requirements in safety with regard to standards of construction, particularly the fire hazard, and these vessels was so great that we felt that our responsibility to the public was such that we should say to these people—which we did, incidentally, many months in advance—“We think that if you expect to continue these operations you should be prepared to spend additional money to bring them up to contemporary standards”. Unfortunately, the owners of the ships said: “We are not prepared to spend the money to bring them up to the necessary standards”, and the service disappeared, as I said, regrettably, because it was a very popular and attractive service.

One of the problems is that vessels used for cruise purposes in the river and great lakes areas, built to contemporary standards are, of course, fairly expensive to build, and the economics of operation are difficult in the sense that you have only a short season and then your boat has to be laid up for nine or ten months and cannot earn any money. This makes the economics of an operation of that sort very difficult. Generally speaking, in the international field we notice that more and more the type of thing that is happening is to try to develop an operation, or a combination of operations, which would permit vessels of this sort to be used all the year round, because this is the only method by which you can make it economically viable. You cannot do it on just a two months' operation. I suppose it was possible with these old vessels because they had long since been depreciated and had very little money spent on them.

Mr. HOWE (*Wellington-Huron*): Mr. Baldwin, did the boats which went from Port McNicoll to Port Arthur and back not carry cargoes? Did they not start their operations before the tourist season? I remember the old *Northern Navigation* which used to leave Sarnia. Some of these started earlier and carried on until pretty near the close of navigation.

Mr. BALDWIN: Mr. Howe, this is, I think, getting into the area of the Canadian Maritime Commission. Do you have information, Mr. Darling, on the Port McNicoll-Owen Sound operations, which would be helpful?

Mr. Darling is the Chairman of the Canadian Maritime Commission and this is the area in which your question now falls.

Mr. HOWARD DARLING (*Chairman, Canadian Maritime Commission*): These were originally freight services and were operated for the entire period of navigation at the time that the railways acquired some independent shipping lines. The passenger services were limited to the summer season, actually.

Mr. HOWE (*Wellington-Huron*): That is what I thought. The passenger service was the auxiliary one, it was not that the freight was auxiliary.

Mr. DARLING: I do not think freight is a primary consideration today because of the methods of handling, which were very good some years ago, but which have not kept pace with these particular ships.

Mr. HOWE (*Wellington-Huron*): None of these boats went into this package—

Mr. DARLING: No. They carried freight under what was known as the rail-lake-rail system where, with a slight reduction on the all rail rates you could ship your traffic by boat from Port McNicoll to Fort William.

Mr. HOWE (*Wellington-Huron*): We hear these stories about hovercraft and craft using hydrofoils. Is there any research going on in the department on this type of boat? There is one from England over here now, is there not?

Mr. BALDWIN: In this sense, sir, that we have done our best to keep abreast of the developments in both types of vessels.

At the moment we are a little more interested in the hovercraft than in the hydrofoil type although the hydrofoil has been used in a number of areas of the world where the conditions are suitable for that type of operation. I think there is one down in the Seattle area; there are some in the Mediterranean; there are some in the Côte d'Azur, Italy, area, and there are some on the Volga river, or the Don river—I have forgotten which—in Russia.

The hovercraft, has the interesting feature of being a sort of multi-purpose vehicle, however, which can move over land and water, and may well prove to be quite an adjunct in this general area. It is still in the developmental stage even though there are certain regular ferry operations with hovercraft now in existence in the United Kingdom. It still has some difficulties in the sense that there is a rather high vibration and noise factor. The economics are also difficult.

Both the marine and air sides of the department participated in a test of a hovercraft which took place recently; we participated with other departments in the test of a hovercraft at the mouth of the Mackenzie to see what sort of use you could make of this under Arctic, semi-winter or winter conditions and, as I mentioned a little earlier, have since been looking at other uses of the hovercraft. While I suspect we are a long way from purchasing one, we feel that we would like to make certain other tests with a hovercraft to see what its capabilities are, and we have been considering the possible short term use of one in the St. Lawrence-lower Great Lakes area for a patrol type of activity, to see what you get out of it when you try it.

Mr. HOWE (*Wellington-Huron*): Are they an expensive type of craft?

Mr. BALDWIN: They are an expensive type of craft, yes. They cost a great deal of money to buy and a great deal of money to operate, depending on the size.

On the other hand, there is one ferry operation in England which has been using what we call the middle-size hovercraft, which has virtually achieved a break-even point.

We have not looked into the economics of this in detail. Primarily we are interested in the technical possibilities at this stage. But, looking to the future, this is quite an interesting possibility.

Mr. HOWE (*Wellington-Huron*): Just as the president of the CPR was speaking about the Buck Rogers days that we were coming into, it looks as if we might be entering that stage right now with this type of thing.

Mr. DEACHMAN: Mr. Chairman, my question has to do with pilotage in connection with Vancouver harbour. My reasons for asking this question are this, that over the course of the last year there has been considerable criticism levelled against the National Harbours Board in the port of Vancouver regarding its rates and tariffs, that they are out of line with other harbours on the west coast and on the east coast. These criticisms are brought by a member of the cabinet of the British Columbia government. He supports this with research and argument brought by a university professor who has been associated with him in these criticisms.

Now, as pilotage is one of the charges levied against a vessel entering the Port of Vancouver and other Canadian ports, I wonder, Mr. Baldwin, if you could give us some comparison of charges in the Vancouver-Seattle area and in the St. Lawrence area, to enlighten us on this aspect of charges against vessels entering Canadian harbours.

Mr. BALDWIN: Could I ask the director of marine regulations if he has available the tariff of charges on the St. Lawrence and the west coast and, if so, to bring it up?

● (10.25 a.m.)

While he is looking it up, I may say, Mr. Deachman, that the charges for pilotage are subject in any particular district which is directly under federal control, in the sense that the minister is the pilotage authority, are approved by Order in Council, but they are usually worked out in discussions between the pilots themselves who can, I suppose, be described as a self-employed group—they share the revenues that come from the pilotage charges—and the shipping group concerned. On the west coast it would be the B.C. Chamber of Shipping, with the department often sitting in, in the role of a third party, on the discussions between them. We have not attempted to maintain an exactly standard level of tariffs from pilotage district to pilotage district; these often reflect local conditions including the local arrangements made with the shipping operators.

I may say, also, with regard to British Columbia, that the area that is required to be covered by a pilot there is larger and, in some ways, rather more complex than in many of the other pilotage districts. A Welland canal pilot has to be able to take his ship through the Welland canal, or a Halifax harbour pilot has to be able to take his ship in and out of Halifax harbour; both require good technical knowledge. A B.C. pilot has to be able to take his ship anywhere from the U.S. boundary up through the Canadian coastal waters to Prince Rupert, which is a pretty extensive area to cover and requires a lot of local knowledge. We have always recognized that this may require a higher income than in some of the less difficult districts.

Perhaps Mr. MacGillivray could tell you one or two of the standard charges on the west coast and one or two on the St. Lawrence river, for comparison purposes.

Mr. R. MACGILLIVRAY (*Director, Marine Regulations, Department of Transport*): I am afraid it is difficult, sir, to make a comparison, because the charges are worked out by different formulae.

On the west coast the tariff is worked out on the tonnage of the ship. For instance, a move in Vancouver harbour for vessels of not over 7,000 tons, \$34; if they are over 7,000 tons it is \$34 plus \$2 for each 2,000 tons or part thereof. For move in Montreal harbour, you see, we talk about foot of draft. There is a basic charge for 2,000 tons plus so much per foot of draft.

It would be very difficult for me, sir, to work out a comparison without sitting down and doing a considerable amount of work.

Mr. DEACHMAN: Mr. MacGillivray, I wonder if we ought to take a standard Liberty ship with which we are all familiar, a vessel of approximately 10,000 tons and 28 feet of draft. This is a vessel which goes into Vancouver harbour, into Seattle harbour, it goes into Quebec and it can go into Montreal Harbour. It would be one that would be common to the harbours I have mentioned. What would be the pilotage in the case of moving a vessel of that kind? This would give us some comparison.

Mr. BALDWIN: I could pick these figures out, but I prefer to have a little time, Mr. Deachman, to do that because of the difficulty.

Perhaps we should define the terms so that we can give you exactly what you need. We could give you harbour moveage pilotage, which is moveage within

a harbour, or we can give you the cost, let us say, of bringing the ship, if it is coming across the Pacific, into Vancouver harbour. However, when you move to the St. Lawrence you have to compare this—and this is where the St. Lawrence charges will be higher, quite frankly—you have to compare this first, with the charge, Les Escoumins to Quebec, the first pilotage district; another charge, Quebec to Montreal, the second pilotage district; another charge within Montreal harbour; if it is going on up the Seaway there are three other charges at various pilotage districts as it moves along. This is why the basis of comparison does become somewhat difficult except, let us say, with a local move in the harbour.

Mr. DEACHMAN: Mr. Baldwin, I think you can see the basis of my question. My question is based upon assertions that the cost of pilotage in Vancouver harbour, or coming into Vancouver harbour, or into the waters of British Columbia, works against the cost of shipping in and out of that harbour. I would like to see figures that either confirm or deny this.

If they could be prepared and brought back to the meeting at a later time this would be very acceptable; but I would like to see something that tells me whether or not the allegation that Vancouver suffers from the cost of pilotage as compared with other harbours and as compared with competitive harbours on the west coast—I would like to see this confirmed or denied by proper figures.

Mr. BALDWIN: Could we give you a comparison on the following basis: A standard vessel; let us say, a 10,000 tonner or something of that sort; we will take a standard vessel; the charges to get that vessel from deep sea into Montreal; the charges to get that vessel from deep sea into Vancouver; and the harbour move charges within the harbour in each case.

Mr. DEACHMAN: As well as the berth charges.

Mr. BALDWIN: We will give you that comparison if we can have a little time and bring it back later, sir.

Mr. DEACHMAN: If it is possible for you to get comparable charges for Seattle and San Francisco that would be appreciated because these are competitive ports on the west coast.

Mr. BALDWIN: I am not sure whether we can get that quite as quickly but we will do our best, sir.

Mr. DEACHMAN: Thank you.

The CHAIRMAN: Are there any more questions?

Mr. BELL (*Saint John-Albert*): Mr. Chairman, I would like to ask a question on the same matter. I am interested in the salaries of the pilots. I do not want to go into the subject now. I have a question on the order paper—which I put on just last night, which will be answered, I presume. What I would like to know from Mr. Baldwin is this: The Pilotage Commission, which is still in being, made extensive inquiries about the different salaries of pilots in the different pilotage areas of the different pilotage districts, and as I understand it, there have been substantial changes even since the information was made available on the salaries.

Do you know, Mr. Baldwin, if the Pilotage Commission will receive the up to date information before they probably make their recommendations with respect to this?

Mr. BALDWIN: I would assume so, because we are providing them with full information on all these matters and any changes that may take place during the work of the commission. I was looking to see if I had this information.

We keep them posted from day to day on any changes including gross income, net income, estimates and this sort of thing for the pilots.

Mr. BELL (*Saint John-Albert*): I do not want to put Mr. Baldwin and his assistants to too much trouble because I know this will be picked up elsewhere, but I wonder if there are any figures readily available on the average salaries in pilotage for, say, the last two or three years?

Mr. BALDWIN: We can very easily give you the average salaries for last year in the various pilotage districts, but I do not have them here.

Mr. BELL (*Saint John-Albert*): At some time later then, because this is of some significance in the final recommendations—

The CHAIRMAN: Should we vote number 5?

Mr. HOWE (*Wellington-Huron*): Mr. Chairman, during our recent trip when we were in Port Arthur we were taken around to see the harbour installations there and one thing that I noticed was the fact that there are not nearly as many tugs in these harbours now. A lot of the boats are equipped with the means to bring them into dock without being pushed; they are self-propelled; they are controlled in some manner. Is this a regulation of the department on all new ships that are being built?

Mr. BALDWIN: Not that I am aware of, sir. There are various devices for improving the manoeuvrability of vessels, and modern vessels quite frequently are built with some assists in them to make it easier to manoeuvre without the aid of tugs; but there is no particular regulation requiring that these be placed in vessels. The bow-thruster is one that comes to mind.

Mr. HOWE (*Wellington-Huron*): That is what I was thinking about. Does it eliminate the necessity of using tugs, and do you envisage a time when all the vessels will be so equipped?

Mr. BALDWIN: I doubt if you will ever completely eliminate the necessity for the use of tugs under certain difficult conditions of wind and current, but I foresee a further trend in regard to the improved self-maneuvrability of vessels.

The CHAIRMAN: Shall we now vote on Item 5?

Mr. CANTELON: I have a question that is rather superficial, I am afraid, but I notice, on page 478, that in 1965-66, under "salaried positions", there was one senior officer, no senior officer 2 and one senior officer 1, and then 7, 4, 6 and 22. I wonder why the next year there is one, one, one, 8, 5, 20 and 23. In other words the one group goes from six to 20; that is a change of 14 in the number of employees under salaried positions; administrative and professional, senior officers. There is one in 1965-66 and one in 1966-67. Senior officer 2: there was none in 1965-66 but one in 1966-67. Senior officer 1, there was one in each year; and then it starts to increase, 7 in 1965-66; 8 in 1966-67; 4 in 1965-66 and 5 in 1966-67. Here is where the big increase comes 6 in 1965-66 and 20 in 1966-67.

I could understand that if there was a change in the group below, but there is not. It was 22 in 1965-66 and 23 in 1966-67. I just wonder why there is the large jump there of 14 from the one year to the next.

Mr. BALDWIN: This is in the \$8,000 to \$10,000 class?

Mr. CANTELON: Yes, that is right. I am sure there is a logical explanation.

Mr. BALDWIN: I am sure there is, too, sir. May I give you that information a little later?

Mr. CANTELON: That will be fine. I cannot see any change below which really seems to justify or explain this.

Mr. BALDWIN: Mr. Worrall, our financial officer, may have the information on this.

Mr. F. L. WORRALL (*Chief Financial Officer (Marine), Department of Transport*): It is under the new financial concept of having financial officers across the country, and these are the new financial officers to each base.

Mr. CANTELON: I see. It is a new class actually?

Mr. WORRALL: It is, yes.

Mr. CANTELON: There are 14 in this new class?

Mr. BALDWIN: We are setting up new local accounting systems and I gather from Mr. Worrall that these are the local field officers to carry out the accounting work at the regional offices.

Mr. CANTELON: That is quite a lot of money to be putting into new local accounting systems. I hope that it pays off.

Mr. BALDWIN: It is a little more than accounting; I should perhaps not have used that particular term. We have been engaged for two or three years in a basic reorganization of the departmental management structure in an attempt to place a larger degree of responsibility at the field level, and to limit the Ottawa function basically to control supervision, policy advice to the minister and similar matters. This has involved placing in the various field offices, marine and air, not only responsibility on an increased basis but the necessary support staff to do their job properly, and this means financial management of the rather large expenditures they have. I should, perhaps, have described them as financial management officers, or local comptrollers.

Mr. CANTELON: Does each one have a local staff, as well?

Mr. BALDWIN: We have the regional marine organization, and it is divided up now into quite a number of marine agencies. We have St. John's, Newfoundland; Charlottetown; we have Saint John, New Brunswick; we have Halifax; Quebec; Sorel; Prescott; Lakehead; Victoria and Prince Rupert. Each of these has a large area to cover, a substantial staff and a very substantial budget on its own. It is in an attempt to increase local competency and local responsibility that we are delegating additional responsibilities to them, but giving them this financial support staff for this purpose.

The same thing is happening on the air side.

Mr. CANTELON: That would be roughly about \$140,000 for salaries alone.

Mr. BALDWIN: We feel it is better to spend that money, however, at the local level than to spend it at Ottawa. The other course would have been a much heavier centralization in Ottawa of a similar type of activity.

This, incidentally, is part of the consequences of the *Report of the Glassco Royal Commission on Government Organization*—this basic change in financial management and organization in the department. We are one of what you might call the pilot departments selected by the government for trying out this system.

Mr. CANTELON: I certainly would not quarrel with that concept, because I think this is desirable; I think decentralization is the only way when you get a department as huge as this one is. To operate efficiently you have to decentralize it.

Mr. DEACHMAN: Mr. Chairman, before we leave Vote 5 I want to draw attention to a couple of items. One is the item "continuing establishment" in each of the sections under Vote 5, which is the item which I believe accounts for the continuing salaries of the permanent employees of the department.

This is gradually increasing in each item as we go along. I look at marine hydraulics, including St. Lawrence and Saguenay river ship channels, on page 482, and "continuing establishment" is up from \$526,000 to approximately \$683,000. On the next page we see "continuing establishment" up from \$8.7 million to \$9.2 million under "coastguard". On the next page, page 484, continuing establishment for marine regulations including pilotage—about half way down the page—is up from \$399,000 to \$477,000. Then I want to point to the items which come under that, which are the general operating expenses in branches, and we see those steadily moving upward, too, in the same way.

I just want to call attention, for instance, to the items on page 482 dealing with marine hydraulics in which see, for example, overtime going up from approximately \$20,000 to approximately \$42,000; professional services, up almost \$100,000; travelling expenses have gone up from \$35,000 to \$66,000; telephone and telegram—and we, in Parliament, thought we were beginning to get a better deal with telephones—but I see that it is up from \$9,500 to \$13,500 in this section.

The question I want to put to the deputy minister is: What is it that causes all these costs to keep creeping upward both in the area of salaries of permanent departmental staff and operating charges, some at a quite startling rate and others at a very steady rate, indeed. Is it warranted by increases of services and benefits to the Canadian people?

Mr. BALDWIN: This is not the easiest question in the world to answer.

Mr. DEACHMAN: No, it is not an easy question. I may have launched a whole discussion here, but I cannot pass the item without drawing this to the attention of the Committee.

Mr. BALDWIN: I would like to offer a comment. Basically, when you look at an increase in salaries and wages you have probably two factors. One is salary increases that are approved by the government as a whole for civil servants. This will mean that even with a stable establishment you will still find costs going up because of wage increases. The other, of course, is the increase that results from addition of additional bodies to an establishment. The additional

bodies arise out of two things; first, is the normal increase in growth which results from increase in public demand for support services and this is part of the job of the Department of Transport. If transportation in a given field increases then there is an additional demand on the department for additional facilities to support it. Additional facilities means additional manpower.

Here, all you can hope to do is, if you want to give the service the public expects and to which, I believe, it has the right—in many cases it is associated with safety or other essential functions—to try to increase your productivity so that your manpower does not increase as rapidly as the transportation industry which you are serving.

I think if we were to indulge in an analysis I could say that the Department of Transport manpower has not increased nearly as rapidly as the transportation industry we are serving, whether it is marine, or aviation, or telecommunications, or whatever it may be. But when there are additional increases you do have to have additional manpower. If we put six big new search and rescue cutters into service on the Pacific and Atlantic coasts we have to have seamen to operate them. This is the sort of reason why you have increases.

Apart from that you have, from time to time, special areas where you have an urgent problem that may require an abnormal and sudden increase either to catch up with a delayed backlog, or to meet a sudden emergency or a major, immediate problem, and this will be reflected in what looks like an abnormal growth rate.

We have had to push up the marine hydraulics staff at a faster rate than the average elsewhere in the department because of this situation of a special and immediate problem. The special and immediate problem is the St. Lawrence ship channel between Montreal and deep water below Quebec city, where we are confronted with exactly the same sort of problems as that confront the Seaway higher up, namely, how are we going to take care of increased traffic growth in the river there? This can only be done by a series of rather expensive projects which must be tested and tried out and studied in advance. The hydraulics lab work that I mentioned is an example of this.

The estimates here reflect a rather large increase in this particular branch because of the immediacy of this particular problem of taking care of the requirements of the river from Montreal to deep sea.

Is that helpful, sir?

Mr. DEACHMAN: We will keep coming back to it as we go along.

Mr. BELL (*Saint John-Albert*): Mr. Baldwin, we were nearly on icebreaking there for a moment. I will resist the temptation and ask another question about another matter which has some concern to maritime ports. I think it could be brought under here.

The minister announced an investigation into the possibility of the Champlain waterway. I understand that the hearings have gone ahead, and they finished at St. John's in Quebec about a month ago. We objected to this waterway system—this canal. I know that a formal brief went forward from the city of St. John's. We think it would greatly damage our future, and if there are any canals going to be built you probably know the one of which I am thinking, about which we have had some discussion in the past, which is the Chignecto canal in New Brunswick and Nova Scotia. All I wanted to ask is if you have any

knowledge of the number of briefs and of the interest that existed when these hearings were held; and how do you think the report is coming, or have you any comment at all on it?

MR. BALDWIN: I am not sure that I could answer the question on the number of briefs and public interest, other than to say that there was substantial public interest and a great many briefs received.

Basically, as I believe you know, Mr. Bell, this was an International Joint Commission study rather than a Department of Transport study. The assistance we provided was in the matter of providing economic and technical data to assist the I.J.C.

I am not quite sure where the matter stands insofar as an I.J.C. report is concerned. I understand that the technical group which was doing a study, which the I.J.C. would table for the purpose of further discussion and public hearing, or eventual decision, indicated a poor cost benefit relationship for this project. In other words, the benefits that were likely to be achieved did not appear to equate very well with the costs involved.

This was just an engineering economic study done at the request of the commission for publication. I believe the matter is now at the stage where the commission is considering what views it will express with regard to the project itself.

MR. BELL (*Saint John-Albert*): In other words, even if there was some optimism arising out of the report, it certainly would have to go a lot further as far as studies and the like are concerned?

MR. BALDWIN: This would be for the International Joint Commission to determine.

The CHAIRMAN: Should we vote Item 5?

MR. CANTELON: I should like to ask one question with respect to the research work that you have been doing on the Seaway. Can you give us a rough idea of just how much this has cost the department over, say, the last ten years?

MR. BALDWIN: This would have to be answered by the Seaway Authority itself. Mr. Camu, or a representative of the Seaway will be here a little later in the discussions when we come to that item.

On the St. Lawrence ship channel, which is Montreal to deep sea in terms of research, I do not know whether Mr. Ripley would care to venture a figure or not, as a rough estimate on this. It is very hard to know exactly how you define this.

MR. CANTELON: Before Mr. Ripley starts I want to say that I am not critical of this expenditure of money; it is just that I want to know what we have been spending as a department on this particular phase of research.

MR. D. RIPLEY (*Director of Marine Hydraulics, Department of Transport*): In the book you will see published there for 1965-66 and also for 1966-67, under "professional special services", items which are in the proximity of half a million dollars for those two years. Our research activity comes out of that part. The amount of money we are spending out of that would be about half in each

of those years. The main part of it would be devoted to model testing and some field work which relates to relating the model to the actual conditions in the river.

In addition to that, and going back several years, we did acquire a laboratory from the Seaway Authority which cost us something of the order of \$800,000. Since we have acquired that we have extended the building twice, with an additional expenditure of \$250,000. All told, I would say that in the last five or six years we have spent something in the order of \$1.5 million on research.

Mr. CANTELON: That is not very much. At least, I do not think it is very much.

The CHAIRMAN: Will we vote on Item 5?

Mr. HOWE (*Wellington-Huron*): My earlier discussion with Mr. Baldwin was in connection with passenger services on the Saguenay and from Port McNicoll. I notice in this hydraulic division it includes the Saguenay river ship canal. Are there quite a number of freighters which use that?

● (10.53 a.m.)

Mr. BALDWIN: Yes, going up to Port Alfred.

Mr. HOWE (*Wellington-Huron*): This ship canal is going to be maintained?

Mr. BALDWIN: Yes; in fact, this is one of the areas—I am sorry Mr. Bell has left because I can now mention the word “icebreaking”—where we make a special effort to open the river early in the season to allow these freighters to get in and out of the mills at Port Alfred.

Mr. HOWE (*Wellington-Huron*): On page 482 there is one item, municipal or public utility services, and in 1965-66 it was \$4,900. The estimate for this year is for \$64,000.

Mr. RIPLEY: Well, sir, the answer to that is that this year we are taking over the operation of an ice control structure just upstream from the harbour of Montreal. This is a device which was built to control the movement of ice out of the prairie basin, and it is associated with the development of the World's Fair site at Montreal. This structure is now going to be managed by the Department of Transport.

The \$64,000 item is made up, in the main, of electrical services charges in the contract with Quebec Hydro.

Mr. HOWE (*Wellington-Huron*): If that is the amount of electrical power, is there going to be a heating unit to heat the water?

Mr. RIPLEY: No, it will not heat the water, sir. There are some 70 to 80 gates in this structure which stretches across the river, 7,000 feet in length, and all the gate units are heated by infra red heating so that they can be moved out of the ice when required. We have to keep the gates free so that they can be operated during the winter time.

Mr. BALDWIN: I would like to explain, Mr. Howe, that this was a project which was decided upon by the government some years ago in connection with the development of the harbour and particularly the Expo islands, to make them usable.

It was built by the Department of Public Works and last year the Department of Public Works asked us if we would be willing to take over its operation because this is the sort of thing we are accustomed to doing. This is the description Mr. Ripley has given you. It is because we have now been asked to become responsible for the operation of this, although it was not our project originally.

Mr. HOWE (*Wellington-Huron*): Do you buy that power from Montreal or from Quebec Hydro?

Mr. BALDWIN: From Quebec Hydro.

Mr. HOWE (*Wellington-Huron*): You are going to use a lot of it for \$64,000.

Mr. BALDWIN: That is correct.

Mr. HOWE (*Wellington-Huron*): There is one other small item I noticed on page 486, which has to do with steamship inspection. It is an item of \$6,000 for overtime and there was no similar item in 1965-66. Is that for additional inspection that is going to be done by this department.

Mr. BALDWIN: It is for payment of overtime to ship inspectors who are called out during the night time hours by the Seaway Authority for vessels using the Seaway. We are making a special charge of \$35 for this service, incidentally, and we are going to have to provide some additional service for this purpose.

Mr. HOWE (*Wellington-Huron*): I notice that your revenues do not nearly meet your expenditures in these areas.

Mr. BALDWIN: That is right.

Mr. HOWE (*Wellington-Huron*): Is the inspector paid time and a half?

Mr. BALDWIN: In accordance with the Civil Service Commission regulations applying to overtime, sir.

Mr. PASCOE: Mr. Chairman, this is just a supplementary question for my own information, following the questions Mr. Howe asked in regard to the removal of the old ships from Port McNicoll to the Lakehead. There was considerable discussion on that when we were at the Lakehead.

Have these old ships been completely scrapped or are they still in some form of service? What is the situation there?

Mr. BALDWIN: I think the old CPR ships are laid up; but I am not sure on that. The Saguenay ones are being sold for scrap and are being moved to Europe for this purpose.

The CHAIRMAN: Are there any more questions on this item? Shall we vote item 5?

Mr. HYMMEN: I have a supplementary question to the one asked by Mr. Howe. This increase on page 482 from \$7,000 to \$107,000, is that related to the other increase on municipal services or not?

Mr. BALDWIN: For the upkeep of buildings, yes. It is related to the same problem.

Mr. HOWE (*Wellington-Huron*): Is that in the same area?

Mr. BALDWIN: Yes; in the area of the ice dam.

Mr. HOWE (*Wellington-Huron*): What is going to be the benefit of this particular unit which has been installed?

Mr. RIPLEY: The purpose of the structure is to retain the ice conditions in the Montreal area of the St. Lawrence river from now on where there is severe ice jamming every year. This structure was built, as I said, to retain the ice conditions from this point onward in more or less the same conditions that existed before the Worlds Fair site was constructed.

Mr. HOWE (*Wellington-Huron*): Is this to make it possible for boats to go around from one dock to another in the winter time?

Mr. RIPLEY: No, it will not keep the ice out of the river; it is to keep it under control, to allow it to form properly and so on.

Mr. HYMMEN: Is this one of the hidden costs of Expo '67? Is this structure just up-river from the site of Expo '67?

Mr. BALDWIN: I do not think it was hidden, sir; it was publicly announced at the time, as I recall, as one of the government's projects.

The CHAIRMAN: Shall we vote Item 5?

Item 5 carried.

We will now go to Item 10, Construction, Acquisition etc.

DEPARTMENT OF TRANSPORT

Marine Services

Vote 10 Construction or Acquisition of Buildings, Works, Land, Vessels and Equipment including payments to Provinces or Municipalities as contributions towards construction done by those bodies and, in respect to Aids to Navigation, authority, notwithstanding section 30 of the Financial Administration Act, to make commitments for the current fiscal year not to exceed a total amount of \$5,850,300 (Details, page 487)

Appropriation not required for 1966-67 (Details, page 490), \$91,-092,100

Mr. DEACHMAN: On Item 10, Mr. Chairman, I want to deal with the weatherships in Vancouver; weathership, West Coast number 1 and number 2 which are found toward the foot of page 488. Dealing with West Coast No. 1, the estimated cost of that is shown as \$20 million. What was the original bid that was accepted on that vessel?

Mr. BALDWIN: \$11.5 million, sir, for the weatherships.

Mr. DEACHMAN: Excuse me, I am in the wrong item. What was the original bid for that weathership?

Mr. BALDWIN: Mr. Strang, would you answer that?

Mr. STRANG: The original bid was \$9.915 million.

Mr. DEACHMAN: The original bid was \$9.915 million, and your estimated cost is now to be \$11.5 million. What do you estimate was the cause of the increase from \$9.9 million to \$11.5 million?

Mr. STRANG: In the initial instance, of course, we were not quite aware of the scientific equipment which was to go into the ship to make her perform her duties on station pattern. The amount allowed in the, first instance for the 90 foot high angle balloon tracking radar—which, incidentally, had not yet been developed—was, of course, about 400 per cent out in the estimate because we had no idea what was going in. In other words, instead of a quarter of a million, that finally cost, I think \$1.1 million. It is very essential. The ship, of course, is built around this particular piece of equipment.

Mr. DEACHMAN: Weathership number 2 is estimated at the same cost. What was the bid on it?

Mr. BALDWIN: A fixed price of \$10.9 million.

Mr. DEACHMAN: \$10.9 million; and you are expecting to end up with a cost of approximately \$11.5 million.

Mr. BALDWIN: This is a rough estimate; you always make certain allowances for over-runs and extras in a contract of this kind.

Mr. DEACHMAN: You will be closer on this one than you were on the other one.

Mr. BALDWIN: That is right.

Mr. DEACHMAN: But you will still be \$600,000 out. What is the cause of that one?

Mr. BALDWIN: Well, the \$11.5 million is our estimate of what it is likely to cost rather than the actual contract figure that we can give you. Normally in major contracts we make an overall cost estimate which is somewhat higher than the actual amount of the contract because we are expected to make allowance for minor variations which quite often arise, or extras on contract. This would apply whether it was a ship, or an air terminal building, or anything of this sort.

Mr. DEACHMAN: There was some discussion in Vancouver that there were errors in design in one of these ships to begin with and that some considerable changes had to be made. To which one of these ships does that relate?

Mr. BALDWIN: That is number 1, sir. I have to appear before the Public Accounts Committee two weeks today on that item.

Mr. DEACHMAN: I realize you are going to be repeating yourself, Mr. Baldwin, but can you give us a brief explanation of what happened there?

Mr. BALDWIN: Yes. I will ask Mr. Strang to supplement my remarks if I have not dealt with this adequately.

This was a design error on the part of the naval architects who were employed for this purpose which, in part, is explainable, I think, by the fact that the meteorological branch, which is the basic user of this ship, had not entirely completed its requirement studies on what would have to go into the ship; but, in part, it was a straightforward design error in regard to stability. This had to be remedied by the department and the shipyard in making design costs which did lead to some additional cost.

However, the total additional cost was not any greater, we estimate, than if the design error had been caught in the first place and the design had been properly done. Is that a fair statement, Mr. Strang?

MR. DEACHMAN: Are the design costs and this error reflected in the figures which are contained in the estimates for the weathership?

MR. BALDWIN: Yes.

MR. DEACHMAN: And they are a part of the additional estimated cost which is reflected here?

MR. BALDWIN: Yes, that is right.

MR. DEACHMAN: At what stage was the error in design caught, and who brought it to the attention of the department, or the shipbuilders?

MR. BALDWIN: The shipyard brought it to our attention.

MR. DEACHMAN: The shipyard brought it to your attention. Was it the marine architect with whom the department had contracted, who was responsible for this—?

MR. BALDWIN: Yes.

MR. DEACHMAN: The error lay with their design?

MR. BALDWIN: Yes, that is correct.

MR. STRANG: Mr. Deachman, we come back to this high angle radar which I mentioned before which went up from a quarter of a million to \$1.1 million in cost. This particular item is a large radarscope in a balloon on top of the foremast, some 140 feet above the water line. I think we can safely assume that its having gone up 400 per cent in cost it went up 400 per cent in weight. As the result of this thing being right on top of the mast, of course, she became negative in stability in certain conditions. In other words, when the ship was flooded—two of the compartments were flooded, which is a regulation we must work to, on the basis of a passenger ship—she had negative stability. Of course, at that time, when the shipyard did a design check before they commenced the drawings, they found this out; but we had spent two years in designing this ship and we had spent six months in calling tenders, and to delay the ship a further two years, or at least a year, and then another six or nine months for a tender call and contract, would have escalated the ship by approximately 6 per cent per annum in cost, from the original estimate put in. Therefore, in point of fact, by making amendments to the ship we actually saved money from re-designing the ship and building it bigger to maintain stability.

MR. DEACHMAN: Well, sir, if I understand you correctly, a design for a ship had been under way for some considerable time and a lot of work had been done on that, and then at a later time, after designs were well developed and the task was well forward, a very heavy structure fitting high on the ship was ordered for the ship and this was the cause of a top heavy ship. Am I correct?

MR. STRANG: Yes, that is quite true.

MR. DEACHMAN: Was this top heavy structure ordered by the department?

MR. BALDWIN: Perhaps I should intervene at this point because we are getting into a different operation.

The weathership is designed, sir, to serve the meteorological branch, and it must have certain installations on it for that purpose. The meteorological branch, in conjunction with our telecommunications branch, had laid down the requirements for the type of installations—radio and rawinsonde equipment,

weather tracking balloons and equipment, and so on—for this ship and a very rough preliminary estimate had been made, as indicated by Mr. Strang, which turned out to be much too low.

The real problem is that this is a very rapidly changing technical area—this equipment for rawinsonde, particularly on ships—and since these ships have to last, I hope, for 25 years, in an attempt to provide the most modern technical equipment our meteorological branch and telecom tried to get the most up to date design which could be put on this ship. This is where we ran into difficulty because of the very rapid change in the communication, meteorological, rawinsonde area generally, where design improvements and technical improvements are taking place virtually every year.

In fact, we have had great difficulty with this particular piece of equipment in getting a workable equipment on a ship, which will be up to date and which will last for at least a reasonable period of years.

I think this is the explanation for the difficulty which the meteorological and telecommunications branch ran into in this field.

Mr. DEACHMAN: Sir, the point I do not understand yet is how it escaped both the Department of Transport and the marine architect who was responsible for the design of the ship that the addition of a heavy structure of this nature high on the ship would disturb the ship's stability, and that it reached the point where the shipyard had to come back to point out to the department and to the marine architect that if they were going to build heavy structures high on the ship this ship would be unstable.

I can well understand how the department could say, at a late date, having regard to the rapid development of scientific equipment, that it would be wise at this point to stop and make this addition and also make whatever additions were necessary to correct the stability of the ship, but how did it escape both the department and the marine architect that the addition of this structure would create an unstable ship and it had to be the shipyard itself, the builders, who came back and said, "We are building an unstable vessel, and architectural changes will have to be made"?

Mr. BALDWIN: As I understand it, I do not think there was any undue delay in the discovery of this. The fact was that the design work on the meteorological installations was behind the construction program of the ship and when the information the meteorological design work and what was intended became available it rapidly became obvious that there was this problem of stability. At that stage the shipyard was working on the design feature and had the ship under construction.

Mr. DEACHMAN: The decision to add the meteorological equipment was not made until very late in the ship design and in the ship construction program. The ship construction was already under way?

Mr. BALDWIN: That is right; and this is because of the desire of the meteorological branch to have the most up to date and modern equipment available for this vessel.

Mr. DEACHMAN: But no order was given at any time to hold off on the completion of the vessel in the event that the construction and addition of this meteorological equipment would disturb the vessel's stability?

Mr. BALDWIN: Corrective action was taken as soon as the information on the meteorological design became available.

Mr. DEACHMAN: Can you give me an estimate of what would be the additional cost of altering the architecture of the vessel to correct for its instability?

Mr. STRANG: It is not quite final, Mr. Deachman, but we expect it to be \$650,000.

Mr. DEACHMAN: \$650,000?

Mr. STRANG: This results, of course, from the—

Mr. DEACHMAN: So the correction cost \$650,000. The value of the equipment was how much?

Mr. STRANG: \$1.1 million.

Mr. DEACHMAN: \$1.1 million. Thank you.

Mr. STRANG: This results, of course, from heavying up the ship and giving her more weight on the bottom and converting the superstructure to aluminum from steel.

Mr. PASCOE: Mr. Chairman, I would like to ask a couple of questions on Item 8, aids to navigation. Is the federal government involved in aids to navigation in smaller bodies of water inland? I am thinking of Last Mountain Lake in my own riding. Does the federal government pay anything towards aids to navigation there?

Mr. BALDWIN: Basically, sir, the program of aids to navigation is related to the requirements of commercial shipping. With the growth of pleasure boating in the recreational field, we have been trying, where we can, to provide some help in this area. It is natural, I suppose, that the service would be provided first in those areas where we are already active and have an organization, and it has to be secondary to commercial shipping.

We have been trying to do a little in the recreational field where we are organized to do this. We have also been encouraging private groups, where they can to work in accordance with our guidelines and instructions to do this where the area concerned is solely for recreational use and may be of limited area.

Mr. PASCOE: I just want to point out to you that there is going to be a new lake formed as soon as the south Saskatchewan dam is in, and it will need some aids to navigation.

There is one more question that I would like to ask. On Vote 10 in regard to aids to navigation: "Anticipated lapses"—what would you mean by that?

Mr. BALDWIN: There is always in any major construction some difficulty in carrying out your program. When you plan your program 15, 18 or 20 months in advance you will find that some of the projects cannot be carried out for one reason or another; the price may come in too high on a tender call and you decide to set this aside until later or you may find greater difficulty in getting a specification ready because of changed soil conditions, or something of this sort. There are almost inevitably some lapses in any major construction program which has to be planned well in advance. This is the reference here.

Mr. PASCOE: There is one more question on page 488 in regard to dredging and it says: "Contract dredging, Saguenay river" and it shows an expenditure of \$500,000 for 1966-67 as compared to only \$50,000 for 1965-66. Mr. Howe has been asking questions about that. Would that indicate that there might be a passenger service again?

Mr. BALDWIN: No; this was basically for some additional channel-deepening in the Saguenay river for the present traffic which is using the river, which is a very substantial freight traffic up through the Port Alfred area. This is to cover the area specifically between St. Fulgence and Chicoutimi.

Mr. PASCOE: Why the large increase this year?

Mr. BALDWIN: Because the work needs to be done and it will largely be done during the present fiscal year. It is a special project in itself.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, I would like to ask a couple of questions of Mr. Baldwin about this matter of ocean rates and insurance at Halifax and Saint John vis-à-vis Montreal. Would this be the appropriate time to ask that, under this item?

Mr. BALDWIN: Mr. Stead, could you deal with that?

Mr. BELL (*Saint John-Albert*): While Mr. Stead is coming forward Mr. Chairman, I do not know what our schedule is, but I think we are going to try to sit most of the day. In that connection, I am sorry I cannot be here, and I am wondering if you could take into consideration the fact that I would like to say something on the Atlantic Development Board?

The VICE-CHAIRMAN: Would you send me a note that you would like to comment on Item 110? We could hold it until Thursday.

Mr. BELL (*Saint John-Albert*): Mr. Stead, I understand that there was an investigation by the Restrictive Trade Practices Commission into this ocean conference which sets the different rates for shipping, and charges have been made that there was a lessening of competition, or some other unfair practices. In the maritimes, in Halifax and Saint John, we were worried that the advantage of the shorter ocean routes that Halifax and Saint John should have, compared with Montreal, were being lessened in some way, and that there was almost the same rate for Montreal and Halifax and Saint John as far as overseas shipping was concerned.

I understand that they found there was not any great lessening of competition, and, although I did not read it, I understand the commission's report was not very definite on whether anybody should be charged with these ocean conferences.

What I specifically want to get at is: Do you have any comment to make regarding the rates? I would certainly be glad to have that.

I want to try to dig up something which I have been investigating for a long while but have never got any satisfaction on, and that is the insurance insofar as winter operations are concerned in the St. Lawrence. We have a fear that the insurance risks of the winter season in Montreal—and I am not getting into the overall icebreaking part of it because we have been on that many times—but I would like to be satisfied that the extra insurance risk which shipping undergoes in going into the St. Lawrence, with or without icebreakers,

is now being spread out over the entire year, and Halifax and Saint John shipping is virtually helping to pay for this extra winter risk. In other words, they are involved in some general rate that includes the winter risk. Can you supply any information on that?

Mr. G. W. STEAD (*Assistant Deputy Minister (Marine), Department of Transport*): Mr. Chairman, I was involved in this for a while as the shippers who were operating in the gulf, with whom we were in contact in connection with organizing the icebreaking operation, were complaining about the rates that were being charged. I gather, having talked to the underwriters in London, that originally the winter navigation premium for breach of the normal warranty that "Thou shalt not go into a certain area at a certain time of the year", was originally designed to keep traffic out altogether. People started going in regardless; when the ice strengthened ships came along, and these rates were applied. There was obviously no probability calculation in determining what premium should be charged, because there was no experience with damage because nobody had ever been in there—or not to any extent, anyhow.

● (11.22 a.m.)

However, the impression I received in discussing this was that the underwriters tend to look at the total record of an owner, and they do not really care whether they get their money back in terms of premiums from the winter navigation extra charge, or from the regular marine insurance. The impression I received—and it is only an impression, because naturally I was not given access to the underwriters' records—was that, if anything, it was the other way around, that the winter navigation was probably subsidizing the open water traffic.

As you know, there are not too many Canadian owners operating in the gulf and their record, from what they tell me, is that the premiums are out of line, they are higher, than one would expect to be warranted by the amount of damage that the few Canadian owners have, in fact, experienced. We are not any longer in this business of discussing the matter generally. It is back in the hands of those who are concerned with it and I am not informed on what the recent progress has been.

Does that answer your question, sir?

Mr. BELL (*Saint John-Albert*): That is a big help. In fact, it is closer than I have ever been able to get to the subject and I appreciate that you are just giving information which may be separate from any responsibilities you have.

Do I understand you to say that a ship leaving the United Kingdom—for example, the Manchester Line or Canadian Pacific—and going to Montreal, and one from the same company going to Halifax or Saint John would actually pay the same insurance rates in winter and summer?

Mr. STEAD: No, sir. There is a clear extra charge, and as the result of some discussions that have taken place, these are not on a single flat rate penalty charge for breaching a warranty by going into these prohibited waters at all; they are on a scale such that there is a higher charge in the peak season in the winter and it tapers off in both directions.

Offhand, although I have it in the office and I could not give you the dates, let us say, somewhere along in December a reasonable penalty charge is applied to shipping going into the gulf, with a scale in relation to the ice strengthening

of the individual ship. There is a benefit to the ships which are stronger. Then the whole scale rises to the peak of the year in, say, February or March, offhand, tapers off at the other end again, and the penalty rate comes to an end somewhere in April, I think.

In addition to those charges the ships pay the normal marine insurance that all ships pay regardless of where they go in open water.

Mr. BELL (*Saint John-Albert*): I realize that if ice strength and hulls become fully used in the industry then my argument or my contention falls down. But to get back to the actual winter season—you have distinguished the summer—but for the winter season, if a ship without any special facilities to deal with ice went to Halifax on one of its voyages and then it went up the St. Lawrence, say, or as long as it went through the gulf—although I suppose you are involved in ice in both respects—would there not be a difference in this case in the insurance?

Mr. STEAD: Yes. Perhaps I could try to put this another way. There is a standard for each company; these rates are negotiated on the basis of the records of individual companies, individual owners; and there is a standard charge for ships going into the normal open water areas of the world. There are a few exceptions, the White Sea and a few other places where their warranties apply extra premiums for various additional hazards, not just ice.

In our case there is a significant additional premium on top of the standard marine insurance rate for ships going into these allegedly prohibited, or previously prohibited, areas, when there is ice about. Therefore, there is a net addition, and a significant one, to the insurance premium for any class of ship, strengthened or unstrengthened, going into ice in the gulf of and the river. It is higher the weaker the ship is. I might say, in that regard, that we, for our own operational purposes, discourage unstrengthened ships from going into ice.

Mr. BELL (*Saint John-Albert*): I understand that in places such as Finland a part of the ice-breaking fee is shown in the rate, and ships that are not strengthened in any way for ice have to pay very heavily for any service that is obtained.

Mr. STEAD: I have the Finnish figures. I was there and discussed this with them, and this is true. There is a scaled rate, charged by the Finnish icebreaker service, based on the degree of ice strengthening of the ship.

Finland, of course, has no alternative but to use, I think, seven ports, and they close in succession by order of the central icebreaker authority in the light of the ice conditions and they retain the right to refuse icebreaker escort to ships which they do not consider suitable for the conditions.

Mr. BELL (*Saint John-Albert*): I thank Mr. Stead for this information; it has been very informative. I just make the comment that by the look of all the new icebreakers which are under construction and in the planning stage, it may be that in time we will have to come to some such policy for a northern country that is going to be heavily involved in this type of activity.

Mr. ANDRAS: Mr. Chairman, following along the line of Mr. Bell's question, but relocating the scene of it, has there been any formal technological studies or plans with regard to the rather large task of opening the Great Lakes for winter shipping?

I am, of course, particularly interested in the lakehead ports for year round shipping. At present, our season starts in early or mid-April, lasting through until the early part of December, and that other period is closed to us. Is there anything in the wind, as it were, for the future, to see if we might entertain year round shipping in that area?

Mr. BALDWIN: It depends on what you mean by year round shipping. If it involves opening of the Seaway there are very, very large technical problems. I would not say that it would never happen, but I would say that it is still a long way off.

Mr. ANDRAS: What about inter-lake shipping?

Mr. BALDWIN: This would depend on the lake. Some of the lakes, I think you could use to a certain extent during the winter, but I would doubt if it was feasible to consider keeping them open. Some lakes remain reasonably open during the winter but others do not. It would depend, to some extent on the lake.

There is no formal plan under consideration for the opening of any one lake, or all the Great Lakes, for winter navigation. There are constant efforts to improve the record at the beginning and the end of the season in terms of availability of icebreaker assistance and facilities of this sort.

Mr. ANDRAS: Anywhere in the world are there any new developments besides icebreakers themselves, which might be interesting?

Mr. BALDWIN: For port facilities, yes, but I am not aware—unless you are, Mr. Stead—of any solution for a lake that freezes over completely to a depth of five or six feet.

Mr. ANDRAS: There is nothing specific yet? It would be of great advantage, of course, if we could have that out there.

Mr. MACEWAN: In line with the matter of new coastguard vessels and so on, I wonder if Mr. Baldwin could report to the Committee on the coastguard college at Point Edward Naval Base? I understand that the first class is now at sea for a short time. Perhaps he could report on the number in the class, when the next class will go in and whether there are any plans for increasing the numbers in the classes at this college.

Mr. STEAD: Mr. Chairman, the first class started out at slightly under 40; I think 32 cadets are in the course of completing the year. There were a few dropouts for various reasons. We are trying to make up the slack in our recruiting for the college term opening in September. We propose to take a little more than 40. The second class will start in September.

The plan is to take in 40 a year. We are assuming, based on the record of all other educational institutions, that there will be some fall by the wayside, and the planning figure we used was graduation of 25. We may do better than that. We hope that our selection procedures will improve with experience. This is only our second year and we hope to get at least 25 out each year.

I might add that this college is planned specifically for the manning of our own fleet. We would not be unhappy if some of these cadets branched off into the service of other government departments; that is intended and allowed for; and ultimately there may be other roles for the college to play, such as refresher courses for existing officers and so forth.

Mr. MACEWAN: Is this, Mr. Stead, a two-year course?

Mr. STEAD: A four-year course with sea training and shipyard time for engineers interspersed. They call it a sandwich course.

Mr. DEACHMAN: I just want to remark, Mr. Chairman, that the best way to deal with the problem of ice in Canadian ports is to ship to the port of Vancouver!

Mr. BELL (*Saint John-Albert*): Do not forget Saint John and Halifax.

Mr. ANDRAS: I am going to land right in the middle of that with the Lakehead.

Mr. HOWE (*Wellington-Huron*): Mr. Chairman, in connection with aids to navigation, I was just wondering—again, we are living in a highly technical and automated period—if you are still building lighthouses as much as you were, or has the fact that as any vessels are equipped with radar and radios and things like that eliminated the necessity for the lighthouses, fog horns and the things that have always been part of marine services?

Mr. BALDWIN: To some extent; but I think you will always find a necessity for light service and fog alarm service.

We are still building lighthouses. In fact, the last *Weekend* magazine had an article on one we built in the St. Lawrence river to replace a light ship.

However, an increasingly large number of the lights that are now being put in are automatic lights which are served on a caretaker basis only rather than by a permanent lightkeeper.

Mr. HOWE (*Wellington-Huron*): Has there ever been any consideration given to setting up centres such as we have in air travel where the ships keep contact with a central control and are guided through ship channels?

Mr. BALDWIN: This is part of the technique which is involved in the marine traffic control system that I mentioned at the beginning, which we are introducing this year on the St. Lawrence from Montreal down. As the requirement grows it may well be used in other areas, or something similar.

Mr. HOWE (*Wellington-Huron*): This would, if it became effective, eliminate some of the necessity for lighthouses and things like that, would it?

Mr. BALDWIN: To some extent. I think this would be the new technology, which might mean that you would not increase your light service to the extent you would otherwise have done.

The VICE-CHAIRMAN: Shall we vote Item 10?

Item 10 carried.

Railways and Steamships, number 15.

DEPARTMENT OF TRANSPORT

MARINE SERVICES

RAILWAYS AND STEAMSHIPS

Item 15 Payments to the Canadian National Railway Company (hereinafter called the Company) upon applications approved by the Minister of Transport made by the Company to the Minister of Finance,

to be applied by the Company in payment of the deficits, certified by the auditors of the Company, arising in the operations in the calendar year 1966 in respect of the following services: Newfoundland Ferry and Terminals; Prince Edward Island Car Ferry and Terminals; Yarmouth, N.S.-Bar Harbour, Maine, U.S.A., Ferry Service (Details, page 490), \$16,416,200.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, I have one inquiry about Vote 15.

I understand that the federal government, in conjunction with the province of Nova Scotia, conducted a survey—some of the information on which released recently—which was based on a proposal for a second Bar Harbour-Yarmouth ferry.

I do not want to get into the details of this report, but I would like to ask Mr. Baldwin, first of all, what actually was the federal participation in this? Did the Nova Scotia government request assistance?

Mr. BALDWIN: Yes. What happened, first of all, Mr. Bell, was that from a number of sources, including the provincial government of Nova Scotia, the department was asked whether it would review the Yarmouth-Bar Harbour service to see whether additional capacity would be justified—an additional shift, for example. This really meant review of the traffic moving between New England and the Atlantic provinces area, basically, in relation to possible ferry connection, with heavy emphasis upon trucks and automobiles because this is the main purpose of that ferry.

The study that we carried out within the department indicated that the traffic growth—the requirement—was such that you were already in a position where there was some need for an additional ferry connection to cater to this traffic during the summer season, and that in the long run this would probably increase further to an all year round requirement as well. In other words, that you already had a situation, or were moving into it, where there was a case for some additional ship capacity. We centred this around Yarmouth-Bar Harbour because that was the existing study.

When the results of this were made known to the provincial government of Nova Scotia it suggested that it would like to have a study made of the most suitable terminals for additional capacity, and stated that it would undertake the responsibility for such a study. It asked the department if we would make some contribution to the cost of the study. We agreed that we would make some contribution to the cost of this additional study, but it was a provincial study that was carried out.

Consultants were employed and they looked at the question of terminals as distinct from the question of traffic volume—the question of terminals in relation to overall cost of service. That study has now been tabled by the provincial government.

Mr. BELL (*Saint John-Albert*): May I ask, first of all, about the deficits on the present service between Yarmouth and Bar Harbour? I notice from the estimates that there is a reduction estimated for 1966-67. Is there a possibility that these deficits will be wiped out and it will be a profitable operation?

Mr. BALDWIN: This has always been our target. We have never quite made it, though we have kept reasonably close to it.

Mr. BELL (*Saint John-Albert*): Do you have any figures, or any general thoughts, on the separation between tourist business and freight and the like? I am trying to separate it in my mind, whether it is an assistance only to tourism or whether there is some direct—

Mr. BALDWIN: Basically, the heavy volume is tourist traffic, but there is an important truck factor although it is quite small. This is an all year round requirement rather than a seasonal requirement.

The best example I can give there are the 1964 figures which I have, and the pattern is pretty constant. Automobiles carried in 1964 on the Yarmouth-Bar Harbour service were 88,000; trucks were 25,000.

Mr. BELL (*Saint John-Albert*): Well, as Mr. Baldwin knows, my concern—

Mr. BALDWIN: No, I am sorry, those figures are wrong. May I correct myself? Automobiles 25,000; trucks 3,000. The 88,000 was total passengers.

Mr. BELL (*Saint John-Albert*): My concern with this is that the federal government, through the Canadian National Railways, is providing a service that has some competition with the CPR service between Digby and Saint John. I am trying to sort out in my mind what the responsibilities are for both the government and the Canadian Pacific Railway.

When Mr. Crump and Mr. Sinclair were here we questioned them on this, and they said that they felt that an adequate service was being provided between Nova Scotia and New Brunswick at Digby and Saint John; but they were very hesitant to give any long predictions or hold out any hope for a better service.

One question that comes to my mind—and I imagine that the Department of Public Works is involved in this—is: Do you have any knowledge of where the new wharf plans are at Digby and the like, because this is all tied in? The CPR said that they can only do so much because the facilities at Digby are not as suitable as they could be, and then, of course, the government has come back and said: "Well, we do not know where we fit in on a long term future basis with the CPR" Have you any knowledge of where those negotiations stand?

Mr. BALDWIN: The consultants' report that was tabled by the provincial government of Nova Scotia suggested that any additional ferry which might be provided should operate across the Bay of Fundy as suggested—Digby to Campobello Island. I do not think I can go beyond a comment at this stage to the effect that this quite obviously raises questions about the relationship of any such proposal to the existing service between Saint John and Digby.

We in the department, the Canadian Maritime Commission and the Department of Public Works have now all got to do a fair amount of thinking about the relationship of this report, and its result, to the existing Saint John-Digby ferry. We are engaged in the process of doing that thinking now, but any results from it would be something that the minister would deal with as a policy question, and I would not like to go beyond that comment at present.

Mr. BELL (*Saint John-Albert*): Thank you very much. I have read somewhere that this whole business, along the lines of your latter statement, is going to be a consideration of the commission which is looking into the freight rates in the maritimes.

Do you know, specifically, whether they are going to deal with this as a part of their overall inquiry?

Mr. BALDWIN: The consultants who were doing the Atlantic transportation studies were originally requested to report on the Saint John-Digby service.

In the light of this new development which you have just been discussing—the Nova Scotian report—we have felt that possibly there is now enough information available for the department, in co-operation with the Maritime Commission and Public Works, to review this situation within the government official service, and report to our ministers on it; and that this is a step that should now be taken without necessarily waiting for the Atlantic transportation studies.

Mr. BELL (*Saint John-Albert*): One final question: In the case of any of the studies of this nature would the C.P.R. make available in a private way, at least, their figures of revenue and expenditures such as in the Digby-Saint John ferry service?

Mr. BALDWIN: We would have to consult with them in the course of the action I have mentioned. We have never encountered any major difficulty in getting confidential information from them, and I would not foresee any in this particular case.

Mr. BELL (*Saint John-Albert*): I hope that Mr. Baldwin sees my concern in this. First of all, it is a matter of principle, because here is one of the very few services left, which is almost a major highway link in Canada, still operated by the Canadian Pacific Railway. They claim it is not a profitable year round enterprise from both the passenger and freight standpoints, and yet a service in increasingly more competition with it, is now being operated by the government through the C.N.R., with a subsidy. They are not only operating now, but they are thinking of doubling the service to compete. I feel sorry for the poor old C.P.R. in this regard, but I also feel sorry for the poor old people of Saint John.

Mr. BALDWIN: Mr. Bell, I think, without going any further that I can say that I am very much aware of the fact that my minister shares your concern.

The VICE-CHAIRMAN: Shall we vote item 15?

Mr. HOWE (*Wellington-Huron*): There is one question I would like to ask here on this Vote number 15. It is in connection with the Prince Edward Island car ferry and terminal where the deficit for 1966 was \$4,393,100.

Mr. Baldwin, we are building a causeway to Prince Edward Island, are we not?

Mr. BALDWIN: This has been announced, I believe. This is not a Department of Transport project.

Mr. HOWE (*Wellington-Huron*): But there would be some consideration between your department and the Department of Public Works about when the period of the completion of the causeway would be. When do you feel that this deficit will be eliminated?

Mr. BALDWIN: So long as we have a ferry operation I could not hold out any particular hope that the deficit would be eliminated, sir, because this service is operated as one of the original terms of Union, as you know, with

Prince Edward Island, and equated in its rate structure to a railway line, which really means that the basic operation will, I think, always carry with it a deficit item. It may be that some adjustments in rates are possible from time to time to help to control this but it was never understood to be, or contemplated as being, an operation that could or would achieve self-sufficiency.

The real problem is that the more the traffic grows, the bigger the deficit then becomes. The causeway was intended, of course, to try and eliminate or reduce that situation.

Mr. HOWE (*Wellington-Huron*): Do you not envisage this causeway to carry a railway line across to the Island, which will eliminate the necessity of the car ferry?

Mr. BALDWIN: Mr. Darling, I think it is intended that there would be a railway line to connect with the Island on the causeway? Mr. Darling confirms that.

Mr. HOWE (*Wellington-Huron*): Do you envisage that this would eliminate the necessity of continuing the car ferry?

Mr. BALDWIN: Largely, yes. No final decision has been taken as to what would happen but the answer is, in the main, yes.

Mr. HOWE (*Wellington-Huron*): Then in the next vote there is an item there for building a new ferry for the Prince Edward Island car ferry service. If you were figuring that in a year or two this would be eliminated, why would you purchase another vessel. Is the old one completely through, or is this an additional one?

Mr. BALDWIN: This is an additional one which is necessary to take care of the traffic growth to the Island. It is already under construction, and the period of time that is required for the construction of the causeway is such that it would be quite impossible to take care of the traffic to and from the Island in the period up to the completion of the causeway without additional ship facilities. The ferry which is now under construction is designed to provide those additional ship facilities.

It has, however, been designed on a flexible basis so that if it is ever not required for the P.E. Island service it can be shifted to one of the other ferry runs for which the government has some responsibility. In other words, we have planned it so that it can be used elsewhere if in five or ten years time it is not required for the Island service.

Mr. HOWE (*Wellington-Huron*): In other words, you feel it may be five or ten years before the causeway is finished?

Mr. BALDWIN: This is a difficult question to address to me, sir. This is a Public Works project.

Mr. HOWE (*Wellington-Huron*): Of course, this is in the next vote. I have some questions about the cost of this particular ferry but I will wait.

The VICE-CHAIRMAN: Is this item carried?

Mr. DEACHMAN: I want to note that when we come to Vote 90 under the Canadian Maritime Commission we will be looking at another \$8,700,000 worth of ferry services which, together with the \$16,400,000 we have here, looks like

\$25,100,000 worth of ferry services, and my question is: Why do we not lump them under one single item and why do we find them under two different administrations and two places in our estimates?

Mr. BALDWIN: The item in the Department of Transport estimates has been basically related to services which are operated by the Canadian National Railway as an agent of the federal government, in order to carry out certain commitments which the federal government has assumed, two of them actually constitutional—the Newfoundland link and the P.E.I. link, Bar Harbour as well—and the C.M.C. item is an item of general subsidy to shipping operations as distinct from this rather specialized category.

Now, from the accounting point of view you could perhaps make an argument that there is some case for trying to combine these in the presentation. The reason I have given is the reason why they have not been combined.

Mr. DEACHMAN: In the one case the item is under administration and in the other case we would be looking at the total item for ferry services.

Mr. BALDWIN: The Maritime Commission subsidizes private operators as well. This is all entirely C.N.R. here.

The VICE-CHAIRMAN: Is Item 15 carried?

Item 15 carried.

Item 20.

DEPARTMENT OF TRANSPORT

MARINE SERVICES

RAILWAYS AND STEAMSHIPS

20. Construction or Acquisition of Buildings, Works and Land, Dock and Terminal Facilities, including improvements to Terminal Facilities owned by Newfoundland, and of Vessels and Related Equipment as listed in the Details of the Estimates provided that Treasury Board may increase or decrease the amounts within the Vote to be expended on individually listed projects (Details, page 491). \$27,683,500.

Mr. HYMMEN: Mr. Chairman, I would like to ask Mr. Baldwin if the ferry vessels mentioned at the bottom of page 491 are replacement vessels or additional vessels?

The VICE-CHAIRMAN: Could you talk a little louder, Mr. Hymmen? It is difficult for Mr. Baldwin to hear you.

Mr. HYMMEN: Are two vessels mentioned at the bottom of page 491 under Vote 20 new vessels, or are they replacement vessels?

Mr. BALDWIN: The ferry vessel is for service between North Sydney and Argentia and the ferry vessel for freight service North Sydney-Port aux Basques—those two services, sir?

Mr. HYMMEN: Yes?

Mr. BALDWIN: Those are new vessels.

Mr. HYMMEN: I have another question on page 492. We have had some discussion about the Prince Edward Island ferry service and the new vessel which is being acquired. Mr. Baldwin has already mentioned that this vessel can

be used in another location if and when the causeway is completed. At the bottom of page 492, Prince Edward Island car ferry, the addition of \$225,000, construction or acquisition of buildings, works and land. What is involved there in view of the fact that this might be a terminal situation?

Mr. BALDWIN: We have to expand the terminals at both Port aux Basques and Sydney to accommodate the new vessel and the overall increased vessel capacity that is required to meet the needs of the Island traffic. This is the terminal expenditure which is complementary to the construction of the new vessel and, as I said, the overall increase in the fleet.

Mr. HYMMEN: You said Port aux Basques and Sydney. This is the Prince Edward Island one, mentioned at the bottom of page 492.

Mr. BALDWIN: I am sorry; this is Borden-Tormentine. The argument is right. I mentioned the wrong terminals.

● (11.52 a.m.)

Mr. MACEWAN: On the same page, Mr. Chairman, I would like to ask Mr. Baldwin regarding the construction of dock and terminal facilities at North Sydney, and above that at Port aux Basques. Have the contracts been let for this work as yet?

Mr. BALDWIN: North Sydney dock work?

Mr. MACEWAN: Yes.

Mr. BALDWIN: This is a Public Works item. Do you know, Mr. Darling, how it stands on the contract? The first two contracts have been let.

Mr. MACEWAN: Thank you.

Mr. HOWE (*Wellington-Huron*): Mr. Chairman, I would like to ask Mr. Baldwin about the ferry from North Sydney to Argentia, Newfoundland. The cost in 1965-66 was \$4,908,000 and in 1966-67 \$2,490,900. What is the total cost of that ferry going to be?

Mr. BALDWIN: The total estimated cost, which includes this allowance for over-runs, is \$12.5 million.

Mr. HOWE (*Wellington-Huron*): How much do you allow for over-runs? We had an indication here today of some new technical equipment that was put on a boat and it required almost the redesigning of the boat. How much do you allow for over-runs on these boats?

Mr. BALDWIN: Perhaps Mr. Strang could tell me the actual amount of the contract when it was let for this vessel?

Mr. STRANG: \$11.5 million.

Mr. BALDWIN: \$11.5 million was the amount of the actual contract that was let.

Mr. HOWE (*Wellington-Huron*): It is estimated that it will cost \$12 million now?

Mr. STRANG: About half of the million dollars, Mr. Howe, is allowed for extras and design changes during the three year building period. The other half

is allowed for escalation. This is the last contract we have with the Canadian National where escalation is allowed on labour and materials.

Mr. HOWE (*Wellington-Huron*): If I understood you correctly you said the time was three years for the completion of the vessel and in that period you allow for—

Mr. STRANG: We allow for escalation on labour and material. In the newer contracts we have no escalation on material, but we do allow escalation on labour because of labour agreements being at various stages of the year in various shipyards.

Mr. HOWE (*Wellington-Huron*): You do not allow escalation on material.

Mr. STRANG: No; it is all firm prices on material on competitive tenders now.

Mr. BALDWIN: We did on this ship.

Mr. HOWE (*Wellington-Huron*): As was said this morning, in answer to a question from Mr. Deachman, there was a weathership, which had some new equipment which was found after the original design had been made. Does this not happen once in a while in this type of construction? Three years is quite a long time these days. There is a lot of new knowledge acquired every year.

Mr. BALDWIN: This is why we allow the \$500,000 for design changes. Normally this would be considered adequate in a ship of this size.

Mr. HOWE (*Wellington-Huron*): What is the estimated total cost of the one between North Sydney and Port aux Basques?

Mr. BALDWIN: \$10.7 million is the total estimated cost. My recollection is that the contract was between \$9 million and \$10 million. It was around \$10 million—the actual contract.

Mr. HOWE (*Wellington-Huron*): Are these vessels being built in the United States?

Mr. BALDWIN: No; they are being built in Canada. They are both under construction now.

Mr. HOWE (*Wellington-Huron*): Where in Canada?

Mr. BALDWIN: Marine Industries, Sorel, for the *Argentia* vessel, and the other is the Davey Yard at Levis.

Mr. HOWE (*Wellington-Huron*): Could I ask the same question about the Prince Edward Island ferry? What is the total cost of it going to be?

Mr. BALDWIN: The total estimated cost is \$14.6 million; and you could allow roughly \$1 million less than that on the contract price.

Mr. STRANG: It was over \$13 million; I believe it was \$13.5 million, Mr. Howe.

Mr. HOWE (*Wellington-Huron*): This is the contract price?

Mr. STRANG: Yes.

Mr. BALDWIN: This is also Marine Industries in Sorel. These contracts were given on tender, incidentally.

Mr. HOWE (*Wellington-Huron*): Those tenders are opened in public?

Mr. BALDWIN: Yes, public tenders.

Mr. HOWE (*Wellington-Huron*): In that connection, why is the Prince Edward Island ferry going to cost roughly \$3 million more than the other one?

Mr. STRANG: Mr. Howe, this Prince Edward Island ferry is a double-ended ferry, two propellers forward and two propellers aft and a full icebreaker somewhat similar to the existing ferry, the *Abegweit*. As such, of course, she is much heavier in the hull and much more powerful than a ship that is not running in ice.

Mr. HOWE (*Wellington-Huron*): I see.

Mr. CARTER: I would like to ask a supplementary about this escalation. Is this escalation for labour a general procedure, or is it one that has become necessary because of the application of the Canadian Labour Standards Code?

Mr. BALDWIN: This has been a general procedure in ship contracts for many years. It used to cover materials; we have changed to eliminate materials; but labour has been maintained as an escalation item. This is a practice of many years' standing.

Mr. CARTER: And the fact that the Canada Labour Standards Code has gone into effect has had no effect on this at all?

Mr. BALDWIN: Not that I am aware of, Mr. Carter.

The VICE-CHAIRMAN: Shall we vote 20?

Mr. HOWE (*Wellington-Huron*): How long do we intend to sit?

The VICE-CHAIRMAN: The chairman thought we might go to 12.30 and come back at 3 o'clock.

Mr. CANTELON: I would like to suggest that we suspend the sitting, because we started at 9.30 and we were here fairly promptly.

The VICE-CHAIRMAN: It is up to the Committee.

Mr. CANTELON: We have to meet again this afternoon and meet again tonight. We have other work which we have to get done somehow, in spite of the fact that the public does not seem to think that we are very busy. Some of us seem to think we are. I think 12 o'clock is long enough.

The VICE-CHAIRMAN: Would you agree to pass this Item 20 and then we will adjourn until after orders of the day?

Mr. HYMMEN: Why do we not wait until this afternoon? I might think up a question.

Mr. HOWE (*Wellington-Huron*): There is no reason to pass Item 20 before this afternoon.

The VICE-CHAIRMAN: Is that agreed? I am in your hands.

Mr. HOWE (*Wellington-Huron*): I move that we adjourn.

Motion carried.

AFTERNOON SITTING

(Recorded by Electronic Apparatus)

TUESDAY, June 14, 1966.

The VICE-CHAIRMAN: Gentlemen, the meeting will now come to order. Mr. Deachman, you have the floor.

Mr. DEACHMAN: Mr. Chairman, at page 492 under vote 20, items 13 and 16, construction or acquisition of buildings, works and land, and for terminal facilities at North Sydney and Argentina, I see that between 1963 and 1966 the total expenditure for capital purposes is about \$4.8 million and there is an estimate for 1966-67 of about \$6.6 million. This is going to make the amount somewhat over \$11 million in facilities and I wonder if we could have a description of just what those facilities are?

Mr. BALDWIN: Basically, this includes the whole work of harbour dredging, construction of wharves, special loading and unloading facilities, sheds, road areas or rail yards as may be required. It is the basic complex that is required to serve a terminal facility and it may vary a little bit according to the type of the ship. This is the sort of thing it covers.

The VICE-CHAIRMAN: Does item 20 carry?

Some hon. MEMBERS: Carried.

Item agreed to.

The VICE-CHAIRMAN: Item 25 is next.

DEPARTMENT OF TRANSPORT

25. Payments in respect of the Maritime Freight Rates Act and to provinces as contributions, as detailed in the estimates, to assist highway construction related to the abandonment of railway branch lines, \$45,000 for grants in aid of transportation research in universities, and payments for supplemental pension allowances to railway employees in the amounts and subject to the terms specified in the sub-vote titles listed in the details of estimates, \$16,039,800.

Mr. PASCOE: Mr. Chairman, in vote 25 it refers to payments and it says, "to assist highway construction related to the abandonment of railway branch lines". Has that anything to do with the abandonment of the branch lines in Saskatchewan or on the prairies?

Mr. BALDWIN: No, not on this occasion, sir. Item 25 is basically the Maritime Freight Rates Act subsidy, as I recollect it, but there is one additional item there which falls within the category that was referred to generally by Mr. Pickersgill when he spoke last week, a particular project in New Brunswick where it was considered advantageous to the federal treasury in the long run to provide some funds for assistance and improvement of a highway in a case where a branch line was being abandoned. This is the Moncton-Buctouche road.

Mr. PASCOE: Well, would it eventually apply to the prairies?

Mr. BALDWIN: This was an ad hoc decision in regard to that particular type of project. I think, Mr. Pickersgill, when he spoke, indicated that he had some

sympathy for using this approach. It would be, so far as policy now stands, on an ad hoc basis in individual cases, and what would happen in the future would be for the Minister to determine.

Mr. PASCOE: There is another item in this particular vote, "grants in aid of transportation research in universities" and there is \$45,000 for this fiscal year as against \$7,000 for last year. Would that research be of any benefit to this Committee; would it be in respect of passenger traffic or anything like that?

Mr. BALDWIN: This is part of a small program which is new, sir, which the Economic Research Branch of the department has been developing. Basically, this is designed to create a greater degree of interest in Canadian universities in the teaching and post graduate work in transportation economics. We have found that a grave weakness in this field exists in Canada. We have had, as have other agencies and provincial governments as well, to turn to individuals or consulting firms outside the country sometimes to have jobs done for us. We feel that it would be important to encourage the economics faculties in Canadian universities to interest themselves in transportation economics to a greater extent and we have the authority of the Treasury Board to try out on a very small scale—and this is the first start—the granting of a small number of post graduate research fellowships to Canadian universities. Where there is some demonstrated competence in this area and when the university says: we have a graduate student who we think can do some useful work in this field. Now, we are going to have to set up machinery for allocation of this. We will probably model it on a National Research Council machinery because they have much experience in doing this; but this is basically our first effort—last year's \$7,000, I should say, was the first effort—by a very small scheme of graduate fellowships to try and get them interested in transportation economics in Canada.

Mr. PASCOE: Could you identify the universities?

Mr. BALDWIN: Last year being the first time grants were made, they were made to only one university, The University of British Columbia and this year decisions have not yet been taken because it is only this year that we received broader Treasury Board approval for the larger amount and we are trying now to determine what machinery to establish for administration of this.

Mr. PASCOE: To come back to my first question, would this research have any connection with the demand for passenger traffic. Would that be included?

Mr. BALDWIN: If the graduate student wished to work on this particular project this might be well one of the subjects that could be involved. Basically, this is to encourage in the universities work in transportation economics, but not to tell them what they must do. In other words, we are trying as a long term measure to develop an interest and a competence which will enable us to do a better job in transportation economics in Canada and to enable us to find more competent people here instead of hiring firms from outside the country, when we have special consultant projects to be done.

Mr. PASCOE: Carrying this one point further, would that research be available to a Committee such as ours?

Mr. BALDWIN: Yes; if the results of the study were of interest to the Committee, I am sure we could obtain it from the universities.

Mr. CANTELON: I would like to ask a question. I gather from the questions I asked earlier this morning about the work that was being done on the seaway that you now have a building that is worth something like \$1 million in which you are doing research.

Mr. BALDWIN: That is technical research. It is a hydraulic laboratory in which hydraulic engineers are working. My reply to Mr. Pascoe was in the field of transportation economics.

Mr. CANTELON: That is exactly what I want to bring out here. So you are doing technical research on waterways, the types of boats that go down the waterways, the kind of things that should be done, deepening the waterways or putting new gates in and so on and yet we do nothing, so far as I can see, in the design of railway lines, in the design of the carriages that run on the railway lines or on types of motor transport that can drive the railway cars. Why do we not?

Mr. BALDWIN: Perhaps we should, sir. I think probably the reason it has happened this way is that the railways provide their own facilities and equipment. They do most of the basic research in this field you have mentioned; in other words, the Canadian National and the Canadian Pacific Railways have major research organizations—I am more familiar with the C.N. than the C.P., but I know they have major research organizations—both technical and economic that work in these fields. We try to keep up with the fields, but we do not basically do any work in the department in this area. We do, however, in marine hydraulics because we have a responsibility in the department to provide facilities. I think this is the pragmatic answer to your question. I could go on and say that basically I feel there is a need for a substantial increase in the whole field of transportation research in Canada, but particularly on the economic side.

Mr. CANTELON: I am glad to hear you say that because that is exactly the feeling I have about it too. I think that since the railways, in my view, are not doing the needed research in this field, perhaps we should take an interest in it.

Mr. SOUTHAM: Thank you Mr. Chairman. Relative to vote 25, it mentions supplemental pension allowances to railway employees in the amounts and subject to the terms specified in the subvote titles listed in the details of estimates. Now, the further detail on this is on page 494. Is this increase from \$20 to \$30 a month for retired employees and, if so, is this to help alleviate the increased cost of living due to people on fixed incomes, or what is the purpose of this particular vote of money? It is on page 494 at the bottom of the page; it is mentioned under vote 25 on page 493.

Mr. BALDWIN: Is this the \$20,000 increase you are referring to?

Mr. SOUTHAM: It is an increase from \$20 a month to \$30 a month and I presume it is for people on a fixed income. Is it for people who already have retired?

Mr. BALDWIN: Yes, this is a long standing item, sir, that has been in the estimates for some time, but it deals with a group of employees who have been retired for a very long time. It goes back to the old Prince Edward Island Railway employees fund. In order to provide a measure of relief for those

former employees of the crown, an appropriation has been provided in estimates since 1921 to increase the minimum pension allowance to \$30 instead of the \$20 per month as originally prescribed by the act that granted them relief.

Mr. SOUTHAM: I presume it is done with the humane intention of helping to make up for the gradual increased cost of living that has developed in that intervening period?

Mr. BALDWIN: I think it was a straight compassionate case.

Mr. CARTER: On vote 25, the supplemental pension allowance is to the Newfoundland employees who were transferred to the CNR. That figure seems to be going up. Have you projected those figures at all into the future to find out when it will level off?

Mr. BALDWIN: Yes, and our projection would show that this will continue to rise over the next five years by roughly \$30,000 a year.

Mr. CARTER: Then will it level off?

Mr. BALDWIN: Then we hope it will level off about that time.

Mr. DEACHMAN: Mr. Chairman, I want to refer to (20) of vote 25 at the bottom of the page 495, subsidy in respect of the construction of a line of railway at or near Grimshaw to Great Slave Lake in the Northwest Territories, and I note that the expenditures on this from 1963 through 1966 will amount to approximately \$58 million and another \$3 million for 1966-67 will bring that up to \$61 million. I wonder if the deputy minister could comment on that expenditure. Are we reaching the end of that expenditure, and precisely what has been provided by the \$61 million?

Mr. BALDWIN: The railway is supposed to be completed this year. I would not say it is the end of the expenditure because there are always small additional capital items on a line that the railway considers are necessary, but basically this is the last year of the original construction program.

Mr. DEACHMAN: May I ask what were the considerations that persuaded the federal government to spend \$61 million on this railway?

Mr. BALDWIN: This would not be a matter for me to answer. I would leave that to the Minister to deal with when he is recalled.

Mr. DEACHMAN: I will reserve that question for him on item 1 and I will at that time ask him, so it will be on the record, what also were his considerations in not making any federal grant toward the extension of the P.G.E. into the north, which is more or less a parallel railway running into the north of British Columbia.

The VICE-CHAIRMAN: I think that should be brought to the attention of the Minister, Mr. Deachman.

Does item 25 carry?

Some hon. MEMBERS: Carried.

Item 25 agreed to.

The VICE-CHAIRMAN: Before going to item 30, air services, I was asked by Mr. Baldwin if it would be possible to postpone item 30 until we come to item 85 and that will give Mr. Baldwin and some of his colleagues an opportunity to

discuss this with the Minister. Does the Committee agree that we postpone item 30 until such time as we reach item 85?

Mr. DEACHMAN: We would then proceed to item 85, the Maritime Commission.

The VICE-CHAIRMAN: Mr. Darling, the Chairman of the Canadian Maritime Commission is here to answer your questions.

Mr. MACEWAN: Do you want to take votes 85, 90 and 95 together?

The VICE-CHAIRMAN: Yes, we will.

D—CANADIAN MARITIME COMMISSION

85 Administration of the Commission and the degaussing of Canadian Government Ships and Canadian-owned merchant ships, of 3,000 gross tons to 20,000 gross tons, of Canadian registry or of United Kingdom registry if subject to re-transfer to Canadian registry under special inter-governmental arrangement (Details, page 514), \$466,000.

90 Steamship Subventions for Coastal Services, as detailed in the Estimates (Details, page 515), \$8,705,835.

95 Capital subsidies for the construction of commercial and fishing vessels in accordance with regulations of the Governor in Council (Details, page 516), \$22,000,000. Total, \$31,171,835.

Mr. MACEWAN: This is on vote 95, "capital subsidies for the construction of commercial and fishing vessels in accordance with regulations of the governor in council, \$22,000,000."

In this regard I take it that the estimates for the construction of fishing vessels is contained in the vote of the Canadian Maritime Commission, but that the loans for the construction of fishing vessels such as trawlers is handled by the Department of Fisheries. I wonder if this is correct, Mr. Darling?

Mr. DARLING: The Canadian Maritime Commission and, in the new regime, under the Department of Industry, steel trawlers over 100 tons will be continued to be processed and the fisheries will have the smaller wooden vessels.

Mr. MACEWAN: I note that the vote this year is \$22 million and the vote for 1965-66 was \$40 million odd. Could you give the Committee any idea of the number of applications—this is for ordinary commercial vessels, not fishing vessels—which have come in during the current year compared with those of the previous year. I know this has commenced as of the first of April.

Mr. DARLING: Perhaps it would be helpful if I explained the \$22 million first. This amount not only covers the applications, which will be processed under the previous subsidy plan which was administered by the commission, but also the prospective applications under the Department of Industry. We estimate there will be another \$8 million required for this program this year with the combined policies. We have on hand now about \$16 million of applications that are being processed under the original subsidy of 35 per cent and these are just the finishing of that. There is also on hand some \$11 million in applications which will be processed by the Department of Industry. Under the previous program, some 60 ships were involved in that figure I have just given you, of which 36 were trawlers. In the unprocessed, which are awaiting

the promulgation of the regulations of the Department of Industry, there are 52 applications of which 23 are trawlers.

Mr. MACEWAN: The fiscal year commenced only as of April 1 and we will have to wait to see the comparison between the present year and the past year's.

Mr. DARLING: Very close to the previous year's.

Mr. MACEWAN: Yes, in spite of the decrease in the amount. Could you explain that again. As I understand it, it will go on a sliding scale.

Mr. DARLING: Yes, it is to start at 25 per cent this year until, I think, July 31 of 1967, then it is to drop each year by 2 per cent to a floor of 17 per cent.

Mr. MACEWAN: Has there been any change so far as the regulations concerning Canadian content in these ships are concerned?

Mr. DARLING: The regulations are now being drafted by the Department of Industry and I cannot say what they might contain. This recommendation was contained in the report of the inter-departmental committee and it has not been completed yet. The final form of these regulations have not as yet been made public.

Mr. DEACHMAN: Mr. Chairman, under vote 95, and I think this is a supplementary to what has just been said, I am interested in subsidies paid for construction of vessels, commercial vessels and log barges on the west coast. Does this \$22 million item include some of those?

Mr. DARLING: Yes, there are applications in hand being processed for 6 barges under the Maritime Commission's program and there are 17 awaiting the Department of Industry's program.

Mr. DEACHMAN: Six barges?

Mr. DARLING: Under the 35 per cent subsidy, which are in process.

Mr. DEACHMAN: And that is under the 35 per cent subsidy.

Mr. DARLING: That is right. There are 17 awaiting the Department of Industry's program, which is a 25 per cent subsidy.

Mr. DEACHMAN: Sir, do you concern yourself with whether or not the owner and operator of the barge is a Canadian company or whether that is an American company operating in Canada under a federal or provincial charter? Is this the concern of the Canadian Maritime Commission when granting a subsidy?

Mr. DARLING: I can only speak for the past program. We never attempted to pierce the corporate veil, so to speak; if it was a Canadian chartered company—

Mr. DEACHMAN: As long as they were incorporated in Canada that satisfied the Canadian Maritime Commission?

Mr. DARLING: That was in accord with the regulations, yes.

Mr. DEACHMAN: Has it ever been put to the Canadian Maritime Commission that perhaps the 35 per cent subsidy was being used by American corporations for the construction of barges and vessels in Canada, which then became competitive with Canadian industry operating in Canada?

Mr. DARLING: A great many of these vessels, I believe, were constructed by companies in Canada which were subsidiaries of foreign companies such as British, American and Dutch.

Mr. DEACHMAN: I refer particularly to the case of a very large log dumping scow or barge recently built for Island Tug and Barge. Do you recall that one?

Mr. DARLING: I have no details on it. I think I recall the thing in general.

Mr. DEACHMAN: And this was one that came under a subsidy of the Maritime Commission, was it not?

Mr. DARLING: Yes.

Mr. DEACHMAN: The reason I inquire about that one particularly is that is a Canadian company which, to the best of my knowledge, and I think I speak accurately, changed hands and became an American company, so I think it is fair to say that it was a Canadian Maritime Commission subsidized fund which became leverage in the hands of the American company to acquire ownership in a Canadian vessel operating company and put this barge in competition with other barges in the Strait of Georgia. Was this matter ever drawn to the attention of the Canadian Maritime Commission?

Mr. DARLING: I think we were aware of the ownership of the company, but it was not a part of the policy of administering the subsidy to make any distinction here. I think this would have required a considerable new approach in policy.

Mr. DEACHMAN: I raise it now with the Chairman and not with you, sir, because I realize it gets to be a political matter at this point. But I certainly raise it with you, Mr. Chairman, as an item I want to raise again on vote 1, at which time I want to put it to the Minister, and I give notice now, that I believe federal funds are being used as leverage by American companies not only to build barges and ships in Canada, but indeed to acquire ownerships in Canadian corporations and put those barges and vessels, which they build, in competition with vessels owned and operated by Canadian companies. I think this is a question I ought to be directing to the Minister on item 1 when he returns rather than to the deputy minister or to the Chairman of the Canadian Maritime Commission.

• (4.10 p.m.)

Mr. BALDWIN: I should perhaps add, Mr. Deachman, that the Minister has directed the officials of the department and the Maritime Commission to make a study on this matter and report to him.

Mr. DEACHMAN: I am glad to hear that. I will put the question anyway.

Mr. CARTER: On financial assistance to the Newfoundland coastal steamship services, is that assistance only to CNR or to other lines as well such as private ship owners?

Mr. DARLING: No, that item \$4,853,000 is entirely the Canadian National's coastal services to Newfoundland and Labrador.

Mr. CARTER: Could you tell me how that figure is determined. Is that a deficit based on the previous year's operations?

Mr. DARLING: It is the deficit in their operations.

Mr. CARTER: For the previous year?

Mr. DARLING: For the previous year, or for an estimate of the current year.

Mr. CARTER: It is an estimate based on their deficit for the previous year?

Mr. DARLING: On actual operation, yes.

Mr. MACEWAN: For my own information I wonder if you could give me the traffic figures on the ferry from Prince Edward Island to Nova Scotia during the past year compared with the year before that. I think it might be interesting if you have that information, but if not perhaps we could get that later on. That is in vote 90.

Mr. DARLING: I will have to get them for you, but they are easily available.

Mr. MACEWAN: I have just one other question. In vote 90, under eastern local services, Prince Edward Island and Newfoundland, I note there was a change made in the company which operates this service. I think the change was made last year. Could you tell us whether or not the service is being properly carried out according to the terms of the contract and whether you have had any complaints in that regard?

Mr. DARLING: No; so far as we can tell the service has been quite satisfactory. He has put a new and a better ship in service this year. He has equipped it with a local crew and he has made several attempts to obtain more traffic for the service. I think there has been considerable improvement in the service this year.

Mr. MACEWAN: It makes calls at the port of Pictou also. There were some complaints the season before this one with regard to the ship which was being used and, as you say, a better one has been put into service this year.

Mr. DARLING: It is a much better ship now and it has greater capacity.

Mr. MACEWAN: Thank you.

Mr. HOWE (*Wellington-Huron*): With regard to local service, I notice the item on Owen Sound, Manitoulin Island and Georgian Bay. What type of boat is this?

Mr. DARLING: It is an automobile ferry.

Mr. HOWE (*Wellington-Huron*): Yes, I understand. But this does not leave from Owen Sound; it leaves from Tobermory.

Mr. DARLING: Tobermory to South Bay Mouth on Manitoulin.

Mr. HOWE (*Wellington-Huron*): Yes. This is an error.

Mr. DARLING: I can give you some details. It is a passenger auto side loading ferry with a capacity for 50 cars. There are some subsidiary services in connection with that. A ferry is operated between Gore Bay and Blind River and Meldrum Bay.

Mr. HOWE (*Wellington-Huron*): You mean the same boat?

Mr. DARLING: No, no, a different vessel, but the same company though. The company's operations are included in the one vote.

Mr. HOWE (*Wellington-Huron*): And this \$157,000 is a subsidy to them?

Mr. DARLING: That is right.

Mr. HOWE (*Wellington-Huron*): What is the purpose of this subsidy, to make the boats safer or to assist them in some way?

Mr. DARLING: This particular one is an operating subsidy, like a good many of the subsidies that you see here, which originated primarily as services to outlying points and the original service was to call at smaller points along the north shore of Lake Huron and in Manitoulin. This boat was rebuilt a few years ago to carry automobiles.

Mr. HOWE (*Wellington-Huron*): The reason I asked that question, Mr. Chairman, is because this morning I was asking about passenger boats—there used to be passenger boats leaving Owen Sound—and I wondered how this one got in from Owen Sound to Manitoulin Island.

Mr. DARLING: There are no more purely passenger boats here. Most of these are either auto ferries or freight boats.

Mr. HOWE (*Wellington-Huron*): They would have to come under more stringent regulations than the boats just carrying passengers, would they not?

Mr. DARLING: No.

Mr. HOWE (*Wellington-Huron*): There would be a possible hazard from cars catching fire, would there not?

Mr. DARLING: They would be rigorous but not more stringent.

Mr. PASCOE: Mr. Chairman, in the details of Item 90 on page 515, steamship subventions for coastal services, it refers to Vancouver and northern British Columbia and Vancouver and the west coast. Are those subventions for passenger ships or freight ships?

Mr. DARLING: It is a combined passenger freight service northland transportation going up as far as Prince Rupert and up to Atlin and smaller places beyond.

Mr. PASCOE: I see the payment is the same for this fiscal year as last. Is this a right which has been established for quite a few years?

Mr. DARLING: This was a contract. It was put out to tender two years ago and was taken at this price. We expect there will be a reduction in this.

The VICE-CHAIRMAN: Do items 85, 90 and 95 carry?

Some hon. MEMBERS: Carried.

Items 85, 90 and 95 agreed to.

The VICE-CHAIRMAN: We will now come back to item 30.

DEPARTMENT OF TRANSPORT

AIR SERVICES

30. Administration, Operation and Maintenance including the administration of the aeronautics Act and Regulations issued thereunder, the administration of the Radio Act and Regulations issued thereunder, Canada's share of the costs of the international radio, telegraph and

telephone organizations listed in the Details of estimates, Canada's assessment for membership in the World Meteorological Organization and grants as detailed in the Estimates, \$103,875,000.

The VICE-CHAIRMAN: Item 30 includes civil aviation, telecommunications and the meteorological service.

Mr. REID: Mr. Chairman, I would like to ask some questions about the radio beacon set-up across the country with reference particularly to the set-up established at Graham, Ontario. As I recall, about a year ago, it was announced that this particular beacon was to be put out of service when the airport closed and it was to be re-established at Atikokan, Ontario. Just before I came to the meeting, I had a phone call from Atikokan asking me what happened to this proposal.

Mr. BALDWIN: The transfer is taking place now in the sense that the work is under way, as I understand it, for the re-location at Atikokan.

Mr. REID: The point that was brought out was that in the Canada Air Pilot, in this new chart that was just published, the indication is Graham is still operating and it also indicates that it is being served manually, according to my informants. From this information, particularly in the new chart, it would seem the transfer is not taking place.

Mr. BALDWIN: I am not sure what the effective date is. Mr. Nixon, have you information on the date of the transfer from Graham to Atikokan?

Mr. NIXON: No firm date has been set.

Mr. REID: Has there been any general date of say, six or eight months?

Mr. BALDWIN: It is in this year's program.

Mr. REID: That is fine. I have cleared that matter up.

Mr. DEACHMAN: Mr. Chairman, I was looking at item 35 which deals with construction of airports so I will wait until that comes up.

Mr. CARTER: I see on page 504 you have an item for electronic computer services. Do you have many of these computers. Is this a program of computerizing your operations?

Mr. BALDWIN: This is the computer requirements of the meteorological branch, which uses computers for two different purposes. One is the central analysis office in Montreal, which has its own computer and which does the basic forecasting by computer for a basic national program. This is based upon a rather expensive computer. In addition, there is a certain amount of contractual computer work that is required in connection with the other aspects of the work of the meteorological services, the headquarters of which are in Toronto, and much of that work is done there. For example, if you want to climatological analysis of a specialized kind and certain deductions from this, you may require a combination run of machine cards in computer work. This is the item that is related to that sort of thing.

Mr. CARTER: You use them only for meteorological services.

Mr. BALDWIN: No; this particular item you referred to is the meteorological services item, but we use computers for other purposes in the department as well.

Mr. CARTER: Are you having difficulty in getting and maintaining skilled operators for these computers?

Mr. BALDWIN: Yes. They are not easy to find.

Mr. PASCOE: Mr. Chairman, on item Vote 30, with details on page 504, it also refers to grants for research in Canadian universities. Is that something new in this particular line?

Mr. BALDWIN: No. The meteorological branch started this. In fact, our idea for economics of transportation emerged from the work of the meteorological branch which started its program of this sort, I would think, four to five years ago when, for very similar reasons, to interest the Canadian universities in doing more work in the field of meteorology, they developed a small program of graduate research grants to Canadian universities. This item of \$125,000 represents the program at the stage it has now reached. It started at around forty thousand or fifty thousand the first year.

Mr. PASCOE: Well, do most universities participate in this?

Mr. BALDWIN: No, not most, but certainly more than the first year or two when we had only one or two receiving grants. Here, again, the initiative is left basically to the universities to come up with projects they think are worth undertaking, though the meteorological branch cooperates with them in this regard in developing this. If I work my way through I can probably find the list. My recollection is that there are about eight universities receiving grants under this. It may be a little higher now.

Mr. PASCOE: And do they report regularly to the department.

Mr. BALDWIN: Yes, they report to the director of the meteorological branch, headquarters of which is in Toronto. He maintains direct contact with the universities.

Mr. PASCOE: This is only a small item now; it may not come in here, but I am just referring to local weather men who report. I am thinking of one particularly in my area who reports every day, and I imagine he does it for nothing. Are their services recognized in any way by the department? I do not think he is paid anything.

Mr. BALDWIN: Well, if he is one of our contract weather men he is. We have quite a number of what we call contract weather men who do local observations for us scattered across the country in return for a small part time payment.

Mr. PASCOE: Area observations, I suppose. Are most of them contract people?

Mr. BALDWIN: Our basic network in meteorology is composed of the weather observation posts that we man ourselves, of which we have quite a few, but the basic component of this is the type of work on land that is described in connection with the weather ship. These are radio sound stations where, in addition to a variety of ground observations, you have weather balloons with rather costly tracking devices that will give you wind, viewpoints and temperatures at various altitudes, plus quite an extensive network of what we call weather contract observers, who are people who, for a small amount, \$300 a year it may be, take daily observations at ground level with regard to wind,

temperature and rain, and send the information into the weather service. Now, this may be an individual; it may be a school teacher in his spare time or a farmer, or it may be a local aircraft company that is interested in the weather anyway and is glad to take this on. We have a lot of those scattered across the country as part of this network of collection of data which is essential to a weather service.

Mr. PASCOE: So they do perform a rather valuable service.

Mr. BALDWIN: A very valuable service.

Mr. HOWE (*Wellington-Huron*): On page 497 I notice in construction services administration there is a jump of \$30,000 in overtime in that particular area. What would that be?

Mr. BALDWIN: Yes. This increase is our forecast of what is required this year due to the experience that has been developing in the last few months which indicates that due to shortages of staff in the engineering field we have to use more overtime.

Mr. HOWE (*Wellington-Huron*): In other words, you are having difficulty getting trained personnel. Is this an inspection job?

Mr. BALDWIN: It is a combination of design office work and field inspection spread over both areas.

Mr. HOWE (*Wellington-Huron*): Then on page 504 there is an item of facsimile facilities of \$1,632,000, meteorological services, administration, operation and maintenance. What would those services be?

Mr. BALDWIN: Which item was that, sir?

Mr. HOWE (*Wellington-Huron*): Facsimile facilities.

Mr. BALDWIN: Oh, yes. Again, part of the network of weather data transmission in Canada is our facsimile network, which is a series of leased lines that are tied into the central analysis office in Montreal where the computer is that I mentioned. At the end of the leased lines in a variety of weather offices across Canada, Frobisher in the Arctic, St. John's in Newfoundland, Halifax, Victoria, wherever you may be, there is a facsimile machine which is used at regular intervals during the day to take off a basic weather map that comes out of the computer in Montreal. In other words, the basic starting map comes out of the computer at regular intervals and is transmitted over a facsimile network and comes out of the facsimile machine in the regional weather offices.

The VICE-CHAIRMAN: Are you through, Mr. Howe? If so, Mr. Pascoe.

Mr. PASCOE: There is just one item I overlooked, Mr. Chairman. On page 505 in connection with the meteorological services it shows a certain amount of revenue. Where would that revenue come from?

Mr. BALDWIN: We do make charges, particularly in the climatological division, for special services provided for a number of private companies. If they come in for a study to be made we have a fixed scale of charges to be made for this. If it is work for another government department or a provincial government this is done without charge usually; but where we are making a special research study based on our, let's say, climatological data and we have to

bring in staff and run machines and use a computer, we have a cost scale of charges. If an insurance company wants to know the incidence of ice in a given area of Ontario, for example, we charge them a fee for the study which is involved to produce this.

Mr. PASCOE: Thank you.

Mr. CARTER: Does the department operate any commercial telegraph lines or radio circuits between different communities in Canada, something similar to what the C.N.T. is doing.

Mr. BALDWIN: No. At one time the department was quite extensively involved in the operation of commercial common carrier telephone and telegraph lines. In the course of the period roughly from the mid fifties to 1960 thereabouts, starting around 1953, we withdrew from that type of operation and turned it over to commercial carriers. We do now acquire our line facilities we need for our own purposes by rental from telephone or telegraph companies. We are not operators ourselves anymore.

Mr. CARTER: You used to conduct classes for radio operators. Are you continuing those classes now?

Mr. BALDWIN: Yes, although the emphasis, of course, in terms of requirements is changing somewhat. The old-fashioned radio operator in terms of the morse code key man is not in as great demand as he was a generation ago, or even a decade ago. What we now need is radio technicians for the much more sophisticated types of equipment. We have a training school at Uplands Airport which does, however, cover radio operators, telecommunications maintenance workers, traffic controllers and things of this sort. It is called the Air Services College.

Mr. CARTER: Are you giving classes in meteorology there too?

Mr. BALDWIN: Meteorological technician training may take place there, but basic meteorological work, however, that is given to meteorological officers or meteorologists takes place at the university level, primarily at the University of Toronto, with some at McGill.

Mr. CARTER: The ones you have out here at Uplands are on a lower scale?

Mr. BALDWIN: They would be technicians.

Mr. CARTER: Do you have many of these classes. Do you have them anywhere else apart from Ottawa?

Mr. BALDWIN: The Air Services College is located in Ottawa, but as might be expected part of the training involves field work after they leave the college or interspersed with the college.

Mr. CARTER: Do these people get paid?

Mr. BALDWIN: Yes.

Item 30 agreed to.

35 Construction or Acquisition of Buildings, Works, Land and Equipment including national airports (as determined by the Minister of Transport) and related facilities, contributions towards construction done by local or private authorities with respect to such airports; amounts to

be paid in settlement of claims for compensation by persons whose property is injuriously affected by the operation of a zoning regulation made under authority of paragraph (j) of subsection (1) of section 4 of the Aeronautics Act, and authority, notwithstanding section 30 of the Financial Administration Act, to make commitments for the current fiscal year not to exceed, for Airports and other Ground Services a total amount of \$30,342,900, for Radio Aids to Air and Marine Navigation a total amount of \$15,645,620, and for Meteorological Services a total amount of \$3,454,200 (Details, page 505) \$42,696,500

Mr. DEACHMAN: Mr. Chairman, Vancouver is the last of the big Canadian cities to get a new modern airport. Tenders for that were let not very long ago. I wonder if the Deputy Minister can give us a run-down on where we stand with construction of Vancouver airport? I hope it is not one of the projects that has to be held up as an inflationary precaution, for example.

Mr. BALDWIN: The construction of the new terminal facilities at Vancouver is progressing in a very satisfactory fashion. We had been rather afraid that given the general situation within the construction industry, the pressures on it, there would be some time lag there; the last report I had from the architect was that we were pretty well on schedule and quite well satisfied with progress at this stage.

Mr. DEACHMAN: When do you expect that terminal will be ready for public use, sir?

Mr. BALDWIN: 1968 is my present estimate.

Mr. DEACHMAN: Some time in 1968?

Mr. BALDWIN: Yes, if we can make it.

Mr. DEACHMAN: How about the problem of a crossing of the north arm of the Fraser River, which is one that has bothered that Island Airport, as you know. This is a matter that is under study in conjunction with the building of the airport. Has that question been resolved yet? I also understand that the share of federal and provincial expense was under examination.

Mr. BALDWIN: It has not been resolved. Normally speaking, the policy that has been followed at airports across Canada, and we have had excellent cooperation from provincial and municipal governments in this connection in most cases, has been that the province and/or the municipality takes care of the necessary road connections to the airport, and we work in cooperation with them in planning and developing this in regard to the airport layout and so on. There have been a few instances where there have been special problems arise, and Sea Island is one of them. The provincial government did ask a consultant to make a study of this matter after asking the federal government to share in the cost of the study. This was done. The study has come in. I am now aware of any provincial government action other than a public announcement, I think, that I saw in the papers that they were assuming that this was no further responsibility of theirs. We are worried how this problem can be solved. It has not yet been solved and there is need in there for some additional crossing facilities. We are meanwhile examining possible lesser alterna-

tives within the department to see if we can find at least some interim solutions for the next short period.

Mr. DEACHMAN: Well sir, as you know, the present crossing is over a drawbridge; that is quite a busy little drawbridge and, quite frequently, traffic is held up for a mile or more along that road while some vessel goes underneath. If this matter has not yet been resolved, are we going to be looking at a brand new airport ready for public use and at the mercy of a little drawbridge?

Mr. BALDWIN: I hope not.

Mr. DEACHMAN: I hope not, too.

Mr. PASCOE: Mr. Chairman, in Vote 35, the details of which are on page 506, mention is made of claims for compensation by persons whose property is injuriously affected by the operation of a zoning regulation. I wonder if Mr. Baldwin could give a few details on zoning regulations.

Mr. BALDWIN: Provision is made in the Aeronautics Act for the zoning of an airport in the sense of the height of the structures that may surround the airport. In other words, we would not consider under the federal powers given by the Aeronautics Act that we could say to a city or a municipality that you may only have houses and not factories, or vice versa; but we do have power to control the height of structures in the vicinity of an airport and the emission of, let us say, smoke that could injure visibility with regard to flying. There is a rather complicated formula, which has been developed by the aviation staff in the light of experience, that is used to zone an airport, and it puts a general height restriction within a certain distance of the centre of the airport, puts additional height restrictions in the areas closer to the side of a runway, and still additional height restrictions on the slope line at the ends of a runway for landing or takeoff. When these restrictions are introduced, when we zone an airport on this rather complicated basis sometimes, not often but sometimes, we find that we have injuriously affected private property. Normally we try to acquire enough land that we have protected the position pretty well, but occasionally it does mean that somebody's land is affected in the sense that he can only build a building ten feet high, if you like, instead of anything else. In such cases, the Act provides also that compensation may be paid, and this is the item which is used to pay these compensation cases. There have not been many, but there have been a steady small stream of them where, in fairness to the owner of the land, we have paid for the damage which has resulted from zoning.

Mr. PASCOE: Well, I was thinking also of the proximity of homes. Are there any regulations in this connection.

Mr. BALDWIN: This is basically a municipal problem; wherever possible we try to cooperate with the municipalities in persuading them to avoid housing developments on the end of a runway and that sort of thing, and to develop secondary industry in the proximity of a busy airport instead of luxury houses. Sometimes we are successful and sometimes not, but basically that is a municipal problem.

Mr. ROCK: At the time that I was a municipal councillor your department did have a public notice about zoning for a new runway in the Montreal area. I

would like to know how many years or how many months could a proprietor demand some compensation? In other words, it is not every person that knows what this notice on zoning means, and quite often the proprietor of, say, that farm only finds out much later on after he wants to sell it. And if the people who are his agents find out there are restrictions and tell this man, well, your property is not worth much, you can only build a building on it of twelve feet high, or twenty feet high and that is the limit, it proves to be quite a problem. Yet, farther down, a person can go thirty or sixty feet high, and possibly before the zoning there was no limit at all. Is there any limit of time that they could ask for compensation?

Mr. BALDWIN: This is dealt with in the statutes. My recollection is that it was debated at some length when it was before Parliament. This would be eight or ten years ago. Again, I am speaking from memory, Mr. Rock, but my recollection is that we are required to publish the notice of zoning in the local papers in circumstances designed to ensure reasonable local publicity, and any local owner then has one year to file a claim for compensation.

Mr. REID: Mr. Chairman, perhaps this might not be the right time to bring it up, but I would like to ask a few questions on the small airports assistance policy.

The VICE-CHAIRMAN: That is the next item.

Mr. HOWE (*Wellington-Huron*): Vote 35 on page 506, mentions runways and associated facilities, \$12,000,000. Where are these operations being carried out? Are they all at Vancouver, or at other airports?

Mr. BALDWIN: No, this is the runway program across the whole country. In your terminal building, which is the next item, \$7,000,000, at least half of that will go towards the Vancouver terminal, but the runway item represents a variety of projects at major airports across the country.

Mr. HOWE (*Wellington-Huron*): We had the Minister of Transport here the other night and he was indicating that he felt that Toronto airport was too small, Montreal airport is too small. Just how far are you able to plan ahead?

Mr. BALDWIN: The runway program is not in bad shape. Fortunately, at long last the manufacturers are recognizing that you cannot indefinitely build bigger and longer runways, that we are pretty close to the maximum in terms of what you can expect to get in the way of land for an airport, so that the modern types of new aircraft that are coming in are basically able to use the type of runway structure that we now have. Now, as traffic grows at a given city we may have to provide an additional parallel runway, or we may have to lengthen a runway if because of traffic growth an airline decides to acquire a different type of aircraft. Basically the program is in pretty good shape in this regard. We know what the airlines, particularly Air Canada and C.P.A., expect to be using over coming years, and we know what we will have to do to meet those. We know what points they expect to serve with them. The problem, I think, that the Minister in all probability was referring to, was how you handle at an airport the new kind of jumbo aircraft that is now on the design board, because if you bring in an aircraft with seven hundred passengers on board you have a rather different terminal handling problem from the one you have now if you have one hundred and seventy-five on board. This is certainly some-

thing on which we are scratching our heads. We have a committee established in cooperation with the air lines and with the inspection services to try to plan ahead to the time when we will need new techniques for this in eight or ten years time.

Mr. MACEWAN: I have just one question, Mr. Chairman. I wanted to ask Mr. Baldwin if he could report on the program for the moving sidewalks, I guess they are referred to, at the Montreal International Airport. What is the cost of this and just where does it stand at the present time?

Mr. BALDWIN: The moving sidewalks are presently being installed in the tunnels at the Montreal airport which go out to the aeroquay. I am informed contract cost is \$400,000 with completion date, I hope, next winter.

The VICE-CHAIRMAN: Vote 35 carry?

Some hon. MEMBERS: Carried.

Item agreed to.

40 Contributions to assist in the establishment of improvement of local airports and related facilities, subsidies towards operation of municipal or other Governments or International Agencies that are detailed in the Estimates for the operation and maintenance of airports, air navigation and airways facilities, including authority to pay assessments in the amounts and in the currencies in which they are levied, notwithstanding that the total of such payments may exceed the estimated equivalent in Canadian dollars, grants as detailed in the Estimates for the development of civil aviation, and payments to the Canadian National Railway Company of the difference between revenues and expenses in the operation and maintenance of telecommunication facilities as detailed in the Estimates in accordance with agreements entered into with the Company with the approval of the Governor in Council, \$2,426,300.

Mr. CANTELON: I am very much interested in this, and I gather from the comments around the table a lot of others are very interested in it too. I want to ask some specific questions with respect to the assistance that has been given in the province of Saskatchewan in particular. I wonder how many grants for assistance have been made in that province?

Mr. BALDWIN: In the current program we have only one request in, which relates to Biggar. There have been some grants made in the past, Mr. Cantelon, at a number of points, and the reason for my hesitancy was I could not remember the names of all of them. I do remember that there were three or four others where we made grants for local assistance to small airfields under the previous rather more modest program.

Mr. CANTELON: You mean last year's program?

Mr. BALDWIN: The present program represents an expansion of one that has been in existence for ten or 15 years, that has gradually grown.

Mr. CANTELON: This is not the one I was enquiring about. The one I was enquiring about was a special one that was put in last year. It was announced in the House, I think, on March 25th, and we only got the details late in May.

Mr. BALDWIN: I think the only request we have dealt with formally so far from Saskatchewan under the new programme is the one at Biggar.

Mr. CANTELON: I was under the impression that there were three in my own constituency alone.

Mr. BALDWIN: Have they applied?

Mr. CANTELON: I think they have applied. They may be in process.

Mr. BALDWIN: They may be in process because there is a standard procedure whereby you make an economic study of each request to see if it is justified economically, and a technical study to see if the ground is suitable and what the expected cost would be before a decision is reached, and then a submission is made to Treasury Board for authorization if the project is approved.

Mr. CANTELON: Well, was there not one at Cabri, at Eston, at Unity and, I think, Kindersley was in the process too.

Mr. BALDWIN: Mr. Goodwin, do you have the list of applications that have come in to date?

Mr. R. W. GOODWIN (*Director of Aviation, Department of Transport*): We have three that are being processed: Biggar, which is in Saskatchewan, Unity and Kindersley.

Mr. CANTELON: Then neither Eston nor Cabri have made requests?

Mr. GOODWIN: I do not have it listed.

Mr. CANTELON: I was under the impression that Cabri wanted to get paving done for theirs. I wondered if this is permissible? They want to pave a local airport because this is a very muddy part of the country and they have a lot of difficulty.

Mr. BALDWIN: It might be this would fall within the category of a possible project. It could equally be that the application might have been received by region but not yet reached Ottawa.

Mr. CANTELON: Thank you. I thought that they had done this a long time ago, but perhaps I am mistaken. Maybe they just had the idea and did not go any further. And there was nothing from Eston either, then?

Mr. GOODWIN: No, I do not have it listed.

Mr. CANTELON: Can you tell me about how much money then the Province of Saskatchewan at present is asking for assistance on these local developments?

Mr. GOODWIN: We have an estimate of \$28,000 but unfortunately we do not have the estimate on Kindersley yet.

Mr. CANTELON: Do you have one from Unity?

Mr. GOODWIN: It is \$9,500, I believe, for Unity.

Mr. CANTELON: And for Kindersley you have no figure at all?

Mr. GOODWIN: There is no estimate on it yet.

Mr. CANTELON: And these are the only ones then in the Province of Saskatchewan at the present time?

Mr. GOODWIN: Yes, that we have processed to the point of recording, sir, in this document of assignment was made up.

Mr. CANTELON: I see. Then you have a vote here and from it last year I gather you have \$1,199,000, roughly, to be spent for this purpose. Am I right in that?

Mr. BALDWIN: It is supposed to be \$1,000,000 a year. There was a slight overrun in regard to one or two projects, I believe, last year.

Mr. CANTELON: I do not mind you overrunning it, but I think it would be a good idea if the vote were a lot bigger, because this is something I think we should have been doing quite a long time ago.

Just what part of the country is making the best use of this opportunity. Perhaps this could be answered by giving me the figures by provinces. I am prepared to wait until the next meeting, if you wish, for the answer.

Mr. BALDWIN: We could table a list of applications received, if you wish.

Mr. CANTELON: Well, if you would do that and total them so that we know province by province just how much they are getting.

Mr. BALDWIN: The costs are only estimates at this stage.

Mr. CANTELON: I realize that, of course.

Mr. BALDWIN: They would represent a two or three year program, because there are more applications on hand than we can finance in any one year. We could list though, all applications presently received.

Mr. CANTELON: Could you do that and break it down by years so I know roughly how much would be going each year?

Mr. BALDWIN: To break it down by years would be a little difficult because we have not yet established priorities with regard to what we can do in any given year. When you have \$1 million and \$4 million worth of requests, this takes a little doing sometimes.

Mr. CANTELON: Well, it seems to me you must have had some priority in the applications; that is, you must have received them in some order which gave you some idea.

Mr. BALDWIN: Yes, but they are not necessarily approved and funds spent in the order in which they are received, because it may well be that the Minister or the department will feel that certain projects have to be given a higher priority than others, even though they came in later, because of the greater demand factor and, a greater need. A local airstrip—and I am not sure this is a good example—in the Toronto area, where there are several already may be less important than a local airstrip in a remote area which has nothing at all and needs it more.

Mr. CANTELON: Like Unity.

Mr. BALDWIN: Possibly.

Mr. CANTELON: You will file that information then.

Mr. BALDWIN: Yes.

Mr. CANTELON: I think it is significant. In fact, you brought out the point I wanted to bring out, that there are some parts of the country where I think this is a real necessity but in other parts of Ontario, say, especially on the strip along the lake, I do not see any particular need of an allowance.

Mr. REID: Mr. Chairman, I would like to ask a few more questions on this. First of all, what is your definition of a small airfield? Is it 5,000 feet, 2,000, 3,000 or what?

Mr. BALDWIN: Mr. Goodwin, would you like to answer that, because I am not sure.

Mr. REID: I would not want you to make any definition that is going to limit this program.

Mr. GOODWIN: The small airport as envisaged under this scheme primarily is for the use of general aviation. The length and breadth of the runway required would be largely dictated by the type of aircraft it is anticipated that would be using this particular facility. I would say it could range from 1,400 feet in very difficult construction areas to 4,000 or even 5,000 feet, if there was an operational requirement. In any case, when it is possible, we do advise the municipalities to secure enough land so we can extend to, let us say, 5,000 feet as traffic develops. This is particularly important now because there are so many small executive jets being introduced into corporate service. It is not always possible to do this due to topographical features, but that is what we recommend to the municipalities who must supply the property.

Mr. REID: On what terms do the municipalities have to have this property. In one of my areas, the town must deal with the local Indian reservation because, it has pretty well all the good usable land near the town. How long would a lease have to be?

Mr. GOODWIN: I do not think I can answer that categorically because I certainly am not an expert on the negotiations between our real estate people and the Indian affairs people.

Mr. BALDWIN: We have no fixed term that we would insist on in this regard, but we would want a security of tenure long enough to justify the expenditures put into this; whether it might be 20 or 40 years would depend a great deal on the circumstances. We have had several cases where we have had to deal with Indian bands and this has been an extremely difficult matter.

Mr. REID: I can well understand that.

The other series of questions I want to ask concern the type of municipal organization that has to be in existence before this program can proceed. As you know, in some of the more rural areas, there is no municipal organization at all; there may be local statute labour boards or there may be improvement districts. What kind of a municipal organization do you insist exists before you will go in and build these airports?

Mr. G. A. SCOTT (*Assistant Deputy Minister, Department of Transport*): Well basically it must be an organization which can take over the operation and maintenance. It does not have to be in all cases, a municipality, if some other company will take on this obligation.

Mr. REID: A company that would be locally formed to do this?

Mr. BALDWIN: If it were considered responsible and capable of doing the job, I think treasury normally expects us to deal through a local public body if possible, and in a number of cases where there has been no organized municipality, provincial governments have assumed this role, and taken this instead. This does not mean that the municipality or the province has to operate the field; they can contract that out to a private company or an air line, if they so desire. There is a treasury preference for us to deal through a public body in the first instance. As I said provinces have stepped in, in some cases, where there has been no municipality.

Mr. REID: I notice in the vote there is a slight increase in the amount of money being provided for this program. Was all the money taken up last year?

Mr. BALDWIN: If it was not all used it was because it could not all be spent. It was all committed.

Mr. REID: If there is any that is not taken up, is it brought forward into the next year's program or is it lost because it is not expended?

Mr. BALDWIN: The program is basically that we may commit up to \$1 million a year in new projects and the funds will then be voted to take care of this. This is our understanding with Treasury Board and we have yet to make it work, but this is the basis of the approval.

Mr. REID: How successful has this been?

Mr. BALDWIN: Extremely successful. We have felt for a long time that for a relatively small amount of money we could do a great deal to provide better local air strips, whether for remote communities or for the smaller development airports which are needed for business aircraft in smaller cities and this sort of thing. We are delighted that it is in existence and we think it is going to fill quite a major need, and the number of requests that are coming in lead us to believe that our expectations are correct.

Mr. REID: I am delighted to see that you are taking into consideration the growing popularity of these new corporate jets. My area depends a great deal on the tourist trade, particularly from the midwest American states. I have had a great deal of difficulty in convincing some of your people in the field that these jets must be looked after in getting some airports extended and with this encouragement I am going to take it up again.

Mr. DEACHMAN: Mr. Chairman, I want to refer to Langley airport, which is located on the trans-Canada highway about 35 miles out of Vancouver. There are three things that are unique about Langley airport. First of all, I understand it does more initial training than any other field in western Canada; the second unique thing about it is that all this has been done on an undeveloped airfield where, in winter, the runways are frequently a sea of mud and sometimes completely useless, where dust and rocks fly in the summertime, chipping their propellers with the dust getting into their carburetors. Yet with all these disadvantages, they have trained more people and are training more people than any other field in western Canada. The third thing that is unique about them is that after three years of steady efforts to see if I could get some help for them from the Department of Transport we still have not anything. I understand a

survey has been made, but a survey often is just a promise. What I really would like to know from the deputy minister today is this. Can he tell me is relief in sight for Langley airport?

Mr. GOODWIN: There is some difficulty experienced in trying to have a corporate or municipal structure that would qualify under the new assistance policy for this work. I recall within the last three weeks there was a final report to be put out by Vancouver and it looked at that time very favourably upon getting on with this project. I cannot recall at the moment what the timing was. I think everyone recognizes, now that the real estate titles and things have been cleared up, I believe, to everyone's satisfaction, that subject to funds being available we will be able to proceed. Again, I am quoting from memory.

Mr. DEACHMAN: I am very glad indeed to hear that the report has received favourable consideration. I want to make a special plea here for this field. If anything possibly can be done in the current summer, and by fall to enable these people to get off even one strip of asphalt by winter, you would be doing this field a great service, because they fly all winter long. There are more light planes taking off through more mud and doing more damage to themselves than on any other field in Canada. This is a fact. They have, for a long time, used this field to train more young pilots and given them more initial training than any other field in the west. They have been looking for an opportunity to fly off a strip of asphalt for some time now. Therefore, if you can do anything for them this summer, so they do not have to go through another winter in the slush and mud, you would have a grateful town and many grateful flyers appreciating the services of this program.

Mr. MACEWAN: I would like to refer to the Trenton, Nova Scotia airport, of which Mr. Goodwin has some knowledge, and I, along with Mr. Reid, were heartened with what he said regarding the executive jets. I just want to bring to his attention a letter, which he has undoubtedly seen, which was sent last month from Clairtone Sound Corporation regarding this matter. They are building a new plant in my area and the president of this plant along with his officials commenced a program of flying top executives from 200 of the largest United States department stores to view the new plant and the facilities in our area. Besides that, within the last year executives from Hawker Siddeley from Toronto have been flying in there to examine the Trenton plants which come under their jurisdiction as well as executives from the United States to the new \$50 million Scott Paper and Pulp Mill which is being constructed there. I noted from the letter written by the president of Clairtone that he put forward the proposition that at least a strip of 4,000 feet was required at the Trenton airstrip as this was set down by safety regulations for private type aircraft from the United States corporations. This is one reason I am suggesting there should be an increase in the length of this runway. Also, the Minister on his statement on item 1 stated that regional air carrier services are more efficient in smaller areas, one reason being that the officials know the area better, the chain of command is shorter and so on and, as is known by Mr. Goodwin and the deputy minister, Eastern Provincial Airways fly into the Trenton airstrip—they have one flight one way to Halifax a day and one back from Halifax to Charlottetown and they have been pressing for an extension of the airstrip. This has been a project of mine for many years.

The last information I had was a letter from the Minister in March of this year in which I asked him whether any improvements would be carried out during the present fiscal year. He said there would not but that a study was under way to determine the need for expanding this airport at some future date. Following the further submissions of Clairtone, other corporations and by the various municipalities in the area, I hope these various factors will be taken into consideration, not only in the extension but the provision of night lighting. I wrote to the Minister a couple of weeks ago and have not received a reply yet. I imagine he is looking into this matter. I asked him whether the study had been determined. I was wondering if there is anything further I could report to the area on this important matter.

Mr. BALDWIN: The study has not yet been completed, Mr. MacEwan. It raises some rather serious problems with regard to the loan term future of the airport and how much it could actually be expanded. We do not want to commit too much in the way of government funds until we are sure of our ground in that regard. My recollection is that Clairtone, in co-operation with the municipality, wanted to go ahead with some small local improvements that would make the field more satisfactory for their purpose. I think within the last day or two I signed a letter to Clairtone giving them the go ahead on that and offering the co-operation of our regional office in working out the details.

Mr. MACEWAN: Have they offered to co-operate in providing some of the capital for this?

Mr. BALDWIN: No, they had offered to provide the capital themselves. So, quite naturally we said: "God bless you and we will provide the technical advice."

Mr. MACEWAN: They will in turn check with your regional office in Moncton on that?

Mr. BALDWIN: That is right.

Mr. SOUTHAM: My question is related to vote 40, contributions to assist in the establishment and improvement of local airports and related facilities.

In my particular situation in southeastern Saskatchewan I am referring to the airport at Estevan which was developed by the Department of National Defence under the Commonwealth air training program and after the war the city of Estevan or the municipality took this over from the government. It was, in its day, quite an establishment, but the maintenance costs for this type of airport has run into quite a large sum of money. I am pleased to see the government has adopted this policy to appropriate a reasonable sum of money to assist in maintaining as well as establishing new airports. I would like to ask the deputy minister if an appropriation has been made to the city of Estevan or is it contemplated?

Mr. BALDWIN: No sir. The maintenance subsidy policy as laid down for us at present to follow is limited to providing subsidies to airports which receive scheduled services which are operated by municipalities.

Mr. SOUTHAM: You have not had any direct application from the city of Estevan?

Mr. BALDWIN: I do not recall any, but I do not believe they receive scheduled service. They would not be eligible unless there is regular service in existence.

Mr. SOUTHAM: It is not really regular airport except there are several small commercial firms, a flying club and another commercial firm which is engaged in crop spraying, which is a very important segment of our agriculture industry in that part of Saskatchewan and they are working out of this airport. I know they are quite concerned about safe and reasonable facilities to carry out this operation in this agricultural area.

The VICE-CHAIRMAN: If you are through Mr. Southam, Mr. Carter is next.

Mr. CARTER: Is there a ceiling on the amount of assistance you give to any one of these small airports?

Mr. BALDWIN: No. It depends on the local service.

Mr. CARTER: Has your department received any requests from either the provincial government or the town of Marystown for assistance toward the flying strips in that area?

Mr. BALDWIN: I do not recall, but we have had several from Newfoundland in which the provincial government stood in, in the absence of municipalities, who act as a public body, but I do not recall Marystown.

Mr. CARTER: There is a little airstrip at Frenchmen's Cove which has not functioned for several years. Has there been any request to have that reactivated?

Mr. BALDWIN: I do not recall that one either. There was a preliminary approach made to it earlier this year, but I do not think it has been put in formal fashion yet.

Mr. CARTER: Just in the form of an approach?

Mr. BALDWIN: Yes.

Mr. PASCOE: Mr. Chairman, I was quite surprised at the small number of applications from Saskatchewan for help in the construction of local airports. I know the Minister announced the policy and there was a press release. Were all municipalities and their officials advised of the details of this plan, where to apply and so on?

Mr. BALDWIN: We did not write to every organized municipality in Canada. This was mechanically difficult, I think you will admit. The program itself has been given considerable publicity but I could not comment on the number from Saskatchewan. The over-all number we have received leads us to believe there has not been any secret about the policy.

Mr. PASCOE: I express my surprise again at the small number from Saskatchewan because I know there are quite a few localities and communities who want it. Could you explain grants to flying clubs at page 508. Is any flying club eligible for this grant, or do they have to be a certain size?

Mr. GOODWIN: No sir. Only flying clubs who are members of the Royal Canadian Flying Association or their counterparts, the commercial flying schools which are members of the Air Transport Association of Canada and who

conduct flying training in accordance with a government approved facility are eligible if they meet these conditions, that is the organization and the students are then eligible for a grant, if they meet these conditions.

Mr. HYMMEN: Mr. Chairman, on this subject under vote 40 regarding the International Civil Aviation Organization, I presume these payments are based on the formula from the operation of airports and so on. How many countries are involved in the International Aviation Organization?

Mr. BALDWIN: I would think the number must be between 90 and 100 which are members of the organization now. The payments that are made here in connection with certain joint facilities in the north Atlantic, however, are made only by the governments which are connected with flying in the north Atlantic area.

Mr. HYMMEN: How many are there. Britain, the United States and Canada?

Mr. BALDWIN: There would be 20 odd, I would think.

The VICE-CHAIRMAN: Does item 40 carry?

Some hon. MEMBERS: Carried.

Item agreed to.

Items 75 and 80 agreed to.

The VICE-CHAIRMAN: On item 82.

DEPARTMENT OF TRANSPORT

82. Amount to be credited to the Railway Grade Crossing Fund, in addition to the amount to be credited to the Fund under the Railway Act in the current fiscal year, for the general purposes of the Fund and, notwithstanding section 30 of the Financial Administration Act, to authorize the making of commitments totalling \$34,967,000 (in addition to any commitments in respect of which amounts are appropriated under this or any other Act) in the current and subsequent fiscal years, \$10,000,000.

Mr. CANTELON: I am not sure if this is the vote under which I want to ask my question. However, the best thing to do is to ask the question.

Is the railway grade crossing fund the one that deals with the placing of lights at railway crossings? If so, could I ask the condition that exists with respect to the crossing in the town of Unity?

Mr. C. W. Rump (*Secretary, Board of Transport Commissioners*): Has the municipality made an application?

Mr. CANTELON: I believe they have.

Mr. RUMP: I could not tell you offhand what it is, but I would be glad to let you know.

Mr. CANTELON: I understand they made the request about a year ago.

Mr. RUMP: You understand that these applications have to be investigated by our engineering staff. That has to be worked into their schedule of operations and so on. Do you recall how long ago it is they made the application?

Mr. CANTELON: They did not tell me definitely, but I think it was about a year ago.

Mr. RUMP: I will have to get that information for you.

The VICE-CHAIRMAN: Does item 82 carry?

Some hon. MEMBERS: Carried.

Item agreed to.

The VICE-CHAIRMAN: Next is item 100, National Harbours Board.

100. Advances to National Harbours Board, subject to the provisions of section 29 of the National Harbours Board Act, to meet reconstruction and capital expenditures during the calendar year 1966 as detailed in the estimates, \$5,138,200.

Mr. DEACHMAN: Mr. Chairman, the National Harbours Board is a very important item. It deals with several major Canadian harbours. There have been some major changes and some very interesting developments over the past year. I have a number of questions I would like to ask on this and they will take some time. I would certainly like to see the Chairman of the National Harbours Board here, particularly in respect of the new contracts which he signed with the CPR for major pieces of property in the harbour of Vancouver which is going to change the whole shape of Vancouver harbour and its development. At this point I would respectfully suggest, Mr. Chairman, that we have quite a job ahead of us to examine the National Harbours Board and I think Parliament is entitled to have the Chairman of this board before us when we examine them.

The VICE-CHAIRMAN: Mr. Deachman, if you would wait for just a moment, I would like to have the name of the two gentlemen present, please.

Mr. L. R. TALBOT (*Vice-Chairman, National Harbours Board*): To answer your question, Mr. Mann was in Vancouver to examine this agreement with the CPR. This took place on Saturday. He is presently in Vancouver and he will be back on Thursday morning.

Mr. DEACHMAN: In the circumstances, Mr. Chairman, I would move that the estimates of the National Harbours Board be laid over until the return of Mr. Mann so that we can hear what he has to say about this very important matter.

The VICE-CHAIRMAN: Do you have a seconder, Mr. Deachman?

Mr. CANTELON: I will second it.

Motion agreed to.

Item stood.

Mr. DEACHMAN: I have no objection to continuing with other votes under the National Harbours Board which can be accomplished here this afternoon, provided item 100 stands. I do not want to waive my right to examine.

The VICE-CHAIRMAN: Mr. Deachman, if you wish, we could on to 103, 104 and 105.

Mr. DEACHMAN: Provided this will in no way waive the right of this Committee to hear from Mr. Mann when he returns on any subject connected with the National Harbours Board.

The VICE-CHAIRMAN: We have to come back at any rate to item 1 and item 110. We will now move on to item 103.

103. To authorize expenditures by the National Harbours Board, either by itself or on behalf of or in cooperation with others, for certain purposes relating to the Canadian Universal and International Exhibition, Montreal, 1967, and to provide, notwithstanding sections 28 and 29 of the National Harbours Board Act, for an absolute grant to the board for such purposes to be credited to the National Harbours Board special account. \$544,000.

Mr. CANTELON: I have just one question. I notice that in 1965-66, there was \$4,783,000 and this last year it was only \$544,000, for the construction or acquisition of buildings. I wonder if there is any reason for this. This is not a constant policy of setting so much a year, is it?

Mr. TALBOT: You are referring to 103.

Mr. CANTELON: Yes.

Mr. TALBOT: These are special votes which cover expenditures on behalf of the 1967 World Exhibition at the port of Montreal. There was a larger amount in 1965-66 than 1966-67 and it should be the last time when an amount appears under that particular vote.

Mr. CANTELON: These then would be recorded as Expo expenditures. They would then show as a part of the total expense for Expo?

Mr. TALBOT: They are expenditures made on behalf of Expo, for which the board derives benefits. They are all improvement demands, which lands will return to the board on the termination of Expo so there is a plus value to the board on these investments.

Mr. CANTELON: This then would not show as an expense of Expo.

Mr. TALBOT: No.

Mr. DEACHMAN: Earlier this afternoon I asked for comparisons of pilotage in Vancouver harbour and other harbours and I pointed out that arose out of criticisms levelled against the National Harbours Board, that its tariffs of charges in Vancouver harbour were not competitive and that the port suffered because of this. These were criticisms levelled by a Minister of the Provincial House of British Columbia.

The VICE-CHAIRMAN: Mr. Deachman, I think Mr. Baldwin has the answer for you.

Mr. DEACHMAN: I think there was a study made by the National Harbours Board in connection with this and I wonder if this could be dealt with by Mr. Baldwin or Mr. Talbot.

Mr. BALDWIN: This would be under the department, since pilotage is a departmental responsibility; but we have the figures here and I would be glad to give them to you.

Mr. DEACHMAN: Mr. Baldwin, I had in mind that with the National Harbours Board before us today, that studies could be made at this time in relation to other charges and tariffs of the National Harbours Board and that

perhaps the board officials here with us today could comment on this whole subject including not only pilotage but wharfage, harbour dues and other matters which were raised at that time.

Mr. TALBOT: There was a study made for the two American ports of Seattle and Bellingham, I believe, in a comparison established for the port of Montreal. All charges would include harbour dues, dock wharfage, pilotage or any charge that accrues to a ship that calls at the port of Vancouver. In all instances it was shown that the total overall charges for similar amounts of cargo in ships of equivalent total tonnage were lower at Vancouver than they would have been at Bellingham, Seattle or Montreal. If you would like to have the details of this report, we would be very glad to make it available to you.

Mr. DEACHMAN: Mr. Chairman, I would certainly like to see this report. In any event we are going to have to have another hearing with the National Harbours Board and I would like to see these figures.

The VICE-CHAIRMAN: Perhaps we could have this report on Thursday morning.

Mr. DEACHMAN: I would like to see these figures brought to the meeting Thursday morning and either some quotes made from them or the figures themselves tabled in the report. This is a charge against a department of the federal government; it is made by a minister of the provincial government, and if they are baseless or if they are not so, then I think this should be a part of the record and we should have the facts before us.

Mr. TALBOT: We will have the figures available on Thursday next. If you would allow Mr. Baldwin, he will now read this report into the record.

Mr. BALDWIN: This is the pilotage only which you asked for this morning.

Mr. DEACHMAN: Thank you very much.

Mr. BALDWIN: This is a comparison of pilotage charges based upon a cargo vessel and, to make it easy, we took an actual cargo vessel of 10,400 gross tons, 6,600 net tons with a 32 foot draft. Pilotage charges into ports from the sea to Vancouver, \$184; from the sea to Seattle, \$160, the difference being accounted for by the fact that the Vancouver mileage is considerably greater than the Seattle mileage, there being a 12 mile difference. Pilotage from the sea into Quebec, \$283; pilotage from the sea into Montreal, \$648—that is, to get the ship from deep water into the port. Local moveages within those harbours, berth to berth, within Vancouver, \$40; within Seattle, \$40; within Quebec \$42 and within Montreal \$52. I had the San Francisco charges as well but I did not include them. Local moveage in San Francisco between \$50 and \$100 and pilotage into San Francisco \$231.

I do not think that this indicates there is any discrimination against Vancouver based on those figures.

Mr. DEACHMAN: Although they are very interesting figures, and I am pleased to see them as part of the record, I have one more question on this particular item. From the time a vessel leaves the St. Lawrence and goes up through the Great Lakes what has it paid in pilotage by the time it enters a port in the Great Lakes?

Mr. BALDWIN: Depending how far it has gone, sir. The nearest point in the Great Lakes would be Kingston, and it would be a little over \$1,000 by the time it got to Kingston: by the time it got to the head of the lakes it would be between \$1,500 and \$2,000. These are round figures, but they are reasonably close.

Mr. DEACHMAN: Thank you.

Mr. PASCOE: Vote 103 at page 517, mentions grants for certain purposes relating to the Canadian Universal and International Exhibition, Montreal, 1967. I suppose that is Expo 67. I notice in the last two years there have been large sums, \$6 million and \$4 million; now it is only \$544,000 for this coming year. Are the expenditures pretty well completed then?

Mr. TALBOT: They will be completed by the end of this year. That is the answer I gave previously. There are expenditures on improvements to land which are the property of the board.

Mr. PASCOE: Permanent improvements?

Mr. TALBOT: They will remain after Expo is terminated. For example, the site of MacKay pier has been improved considerably to receive the structure which will go on MacKay pier. The land remains the property of the National Harbours Board after Expo is terminated. All these expenditures are in the nature of improvements to land and board property.

Mr. PASCOE: So the benefits will remain after Expo is over?

Mr. TALBOT: They will accrue to the board. All these are just values to the board after Expo is over.

Mr. CANTELON: I have a supplementary to this. Are there any other expenses of this type that show somewhere else. I would not want to use the work hidden. I have not noticed any and I wondered if there were any.

Mr. TALBOT: You mean related to Expo?

Mr. CANTELON: Yes. You are improving them and they will be there after Expo is gone.

Mr. TALBOT: There is one expenditure which is a new approach to the Champlain bridge. That is an extension of University Avenue to the entrance of Expo and then over the old city dump and on to Champlain Bridge. This will be the main access road to Expo. There is an expenditure there related to Expo in a way.

Mr. CANTELON: Do you know how much that is?

Mr. TALBOT: It is a supplementary estimate to vote L90.

Mr. BALDWIN: It is an item that has been recommended but it is not yet before Parliament.

The VICE-CHAIRMAN: Does item 103 carry?

Some hon. MEMBERS: Carried.

Item agreed to.

Item 104 agreed to.

The VICE-CHAIRMAN: On item 105, the representatives are not available at the present time.

If it is the wish of the Committee we will stand items 105, 110, 101 for Thursday morning.

Before leaving, Mr. Bell asked Mr. Baldwin this morning for a report. Could I have a motion that this report be made an appendix to the proceedings?

Mr. CARTER: I so move.

Mr. PASCOE: I second the motion.

The VICE-CHAIRMAN: Motion agreed to.

We will now adjourn until Thursday morning at 9.30.

APPENDIX A-7

COMPARATIVE STATEMENT OF PILOTS' EARNINGS AND WORKLOAD

District	Year	Gross Revenue of District	Number of Pilots on Strength for Year	Gross Earnings per Pilot on Strength	Claimed Travel Expenses	Net Earnings per Pilot on Strength	Hours on Assignment per Pilot on Strength
		\$		£	\$	\$	
HALIFAX	1963	202,407.50	17.5	11,566.14	—	11,566.14	268.9
	1964	221,807.06	16.9	13,128.23	—	13,128.23	338.9
	1965	225,738.81	16	14,108.68	—	14,108.68	370.4
SAINT JOHN	1963	124,336.00	9	13,815.00	—	13,815.00	389.1
	1964	124,577.00	9	13,839.67	—	13,839.67	439.6
	1965	124,096.00	9	13,788.33	—	13,788.33	448.4
SYDNEY	1963	122,099.14	12.3	9,926.76	—	9,926.76	117.4
	1964	100,944.80	10.2	9,896.55	—	9,896.55	140.2
	1965	83,148.85	9.4	8,845.62	—	8,845.62	134.7
QUEBEC	1963	1,220,222.40	77	15,847.05	1,600.00	14,247.05	1,041.6
	1964	1,375,744.38	78.4	17,547.16	1,600.00	15,947.16	1,177.5
	1965	1,629,715.78	85.8	18,994.36	1,600.00	17,394.36	1,120.9
MONTREAL RIVER	1963	1,781,657.37	123	14,485.01	1,600.00	12,885.01	1,025.3
	1964	1,925,391.60	123	15,653.59	1,600.00	14,053.59	1,060.3
	1965	2,296,521.83	130.3	17,624.88	1,600.00	16,024.88	1,057.8
MONTREAL HARBOUR	1963	292,187.37	16	12,636.71	1,600.00	11,036.71	756.4
	1964	251,623.75	16	15,726.49	1,600.00	14,126.49	923.5
	1965	292,091.18	16.9	17,283.50	1,600.00	15,683.50	965.2
CORNWALL	1963	406,525.14	32	12,703.91	1,000.00	11,703.91	1,043.8
	1964	478,592.97	33.1	14,459.00	1,000.00	13,459.00	1,246.0
	1965	607,451.39	36.0	16,873.65	1,000.00	15,873.65	1,323.9
BRITISH COLUMBIA	1963	1,372,255.61	66	20,791.75	3,587.98	17,203.77	1,404.1
	1964	1,459,698.15	69.7	20,942.58	3,601.60	17,340.98	1,447.6
	1965	1,559,508.67	73	21,363.13	3,666.47	17,696.66	1,371.7

COMPARATIVE STATEMENT OF PILOTS' EARNINGS AND WORKLOAD

District	Year	Gross Revenue of District	Canadian Share of Net Income	No. of Canadian Pilots on Strength	Gross Earnings per Pilot on Strength	Claimed Travel Expenses	Net Earnings per Pilot on Strength	Hours on Assignment per Pilot on Strength
		\$	\$		\$	\$	\$	
NO. 1—KINGSTON.....	1963	544,751.96	266,472.64	20	13,323.63	1,000.00	12,323.63	986.2
	1964	627,872.04	333,121.70	20	16,656.09	1,000.00	15,656.09	1,144.6
	1965	693,527.90	376,248.30	20	18,812.42	1,000.00	17,812.42	1,359.7
NO. 2—PORT WELLER- SARNIA	1963	1,144,628.50	515,834.32	34.7	\$1,380.00 per month as Public Service Employees			2,602.9
	1964	1,448,657.65	568,267.60	33	\$1,425.00 per month as Public Service Employees			2,733.5
	1965	1,663,153.76	716,695.99	42 } 3 }	\$1,485.00 per month as Public Service Employees			2,614.8
					Lake pilots at \$1,250 per month as Public Service Employees			2,451.5
NO. 3—ST. MARY'S RIVER...	1963	346,266.02	35,055.26	3	\$1,340.00 per month as Public Service Employees			2,107.5
	1964	418,389.14	58,471.98	3	\$1,425.00 per month as Public Service Employees			2,334.6
	1965	420,665.88	59,189.83	3	\$1,485.00 per month as Public Service Employees			1,792.2

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OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations
and/or a translation into English of the French.

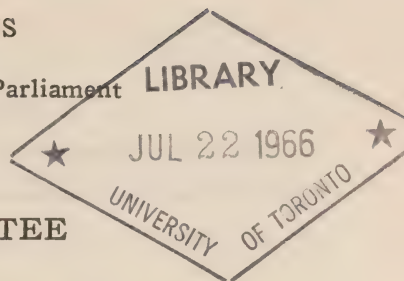
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LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966



STANDING COMMITTEE

ON

TRANSPORT AND COMMUNICATIONS

Chairman: Mr. JOSEPH MACALUSO

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 21

THURSDAY, JUNE 16, 1966

Respecting

Main Estimates 1966-67 of the Department of Transport

WITNESSES:

Hon. J. W. Pickersgill, Minister of Transport and Mr. J. R. Baldwin, Deputy Minister. *From the St. Lawrence Seaway Authority:* Messrs. P. E. R. Malcolm, President, James M. Martin, Director of Financial and Accounting Branch. *From the National Harbours Board:* Messrs. H. A. Mann, Chairman, L. R. Talbot, Vice-Chairman. *From the Atlantic Development Board:* Dr. Ernest Weeks, Executive Director and Messrs. F. J. Doucet, Director of Program Section; D. Levin, Director of Planning and C. P. Russell, Secretary.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE
ON
TRANSPORT AND COMMUNICATIONS

Chairman: Mr. Joseph Macaluso

Vice-Chairman: Mr. H.-Pit Lessard

and

Mr. Allmand,
Mr. Andras,
Mr. Ballard,
Mr. Bell (*Saint John-
Albert*),
Mr. Byrne,
Mr. Cantelon,
Mr. Carter,
Mr. Deachman,

Mr. Fawcett,
Mr. Horner (*Acadia*),
Mr. Howe (*Wellington-
Huron*),
Mr. Hymmen,
Mr. McWilliam,
Mr. MacEwan,
Mr. Olson,
Mr. Pascoe,

Mr. Reid,
Mrs. Rideout,
Mr. Rock,
Mr. Saltsman,
Mr. Sherman,
Mr. Southam,
Mr. Yanakis—(25).

(Quorum 13)

Maxime Guitard,
Clerk of the Committee.

REPORTS TO THE HOUSE

WEDNESDAY, June 15, 1966.

The Standing Committee on Transport and Communications has the honour to present its (Interim)

SEVENTH REPORT

On February 8th, 1966, the following subject-matter was referred to the Standing Committee of the House of Commons on Transport and Communications by the House of Commons for its consideration and report:

"That the subject-matter of the adequacy of the present program and future plans for passenger service on the lines of the Canadian Pacific Railway to meet the effective demand of the public for such service and the effects of such program and plans be referred to the Standing Committee on Transport and Communications for their consideration and report."

From February 17th, 1966 to June 7th, 1966, inclusive, the Committee has held 34 hearings and has heard 70 briefs from and including the Governments of the Provinces of British Columbia, Alberta, Saskatchewan and Manitoba and from the Mayors and/or representatives of 12 municipalities situated along the CPR main line from Vancouver, B.C. to Port Arthur, Ontario, and from representatives of Chambers of Commerce, labour unions and many other organizations and individuals.

The Committee has not concluded its hearings and therefore is not prepared to provide a final report. However, the Committee feels that an interim report concerning certain aspects of CPR passenger train service should be made to the House of Commons prior to the completion of a final report.

The Committee is of the opinion that a definite need exists for additional passenger train service on the CPR lines from Montreal to Vancouver. This need will be greatly increased by the demand for passenger train service from Vancouver to Montreal in 1967 for service to Expo '67 and for Centennial celebrations across Canada.

The Committee therefore recommends that a second trans-continental passenger train service, with full consist of day coaches, sleeping cars, dining cars and baggage cars, be operated beginning early in 1967. This trans-continental passenger train service is to be supported by an adequate advertising and promotion program.

The Committee further recommends that consideration be given to the institution of suitable RAILINER service to improve local services between particular western communities.

The Committee hearings further indicate that from the point of view of the public, there are serious inadequacies in the reservation facilities of the

Canadian Pacific Railway and therefore recommends that the Board of Transport Commissioners investigate the adequacy of CPR's reservation system as it applies to its trans-continental passenger train services.

A copy of the relevant Minutes of Proceedings and Evidence (Issues Nos. 1 to 17, inclusive) is appended.

FRIDAY, June 17, 1966.

The Standing Committee on Transport and Communications has the honour to present its

EIGHTH REPORT

Pursuant to its Order of Reference of March 22, 1966, the Committee had before it for consideration, the items listed in the Main Estimates for 1966-67, relating to the Department of Transport.

Your Committee has considered and approved the Main Estimates, 1966-67, of the Department of Transport namely: Items nos. 1, 5, 10, 15, 20, 25, 30, 35, 40, 75, 80, 82, 85, 90, 95, 100, 103, 104, 105 and 110 and commends them to the House for approval.

Respectfully submitted,

JOSEPH MACALUSO,
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, June 16, 1966.

(38)

The Standing Committee on Transport and Communications met at 9.45 o'clock a.m. this day. The Vice-Chairman, Mr. Lessard, presided.

Members present: Messrs. Andras, Bell (*Saint John-Albert*), Cantelon, Deachman, Horner (*Acadia*), Howe (*Wellington-Huron*), Hymmen, Lessard, MacEwan, Pascoe, Reid, Southam, Yanakis (13).

Also present: Mr. Orlikow.

In attendance: Honourable J. W. Pickersgill, Minister of Transport and Messrs. J. R. Baldwin, Deputy Minister. *From the St. Lawrence Seaway Authority:* Messrs. P. E. R. Malcolm, President; James M. Martin, Director of Financial and Accounting Branch. *From the National Harbours Board:* Messrs. H. A. Mann, Chairman; L. R. Talbot, Vice-Chairman. *From the Atlantic Development Board:* Dr. Ernest Weeks, Executive Director and Messrs. F. J. Doucet, Director of Program Section; D. Levin, Director of Planning and C. P. Russell, Secretary.

The Vice-Chairman opened the meeting. The Committee resumed its consideration of the items listed in the Main Estimates for 1966-67, relating to the Department of Transport.

Items Nos. 1, 100 and 110 were severally carried.

The Vice-Chairman was instructed to report the said items listed in the Main Estimates for 1966-67, relating to the Department of Transport, to the House for approval.

The Committee agreed unanimously, to the document tabled by Mr. H. A. Mann, Chairman of the National Harbours Board, being printed as an appendix to this day's Minutes of Proceedings and Evidence (*See appendix A-8*).

At 12.45 o'clock p.m. the Committee adjourned to the call of the Chair.

Maxime Guitard,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

THURSDAY, June 16, 1966.

The VICE-CHAIRMAN: Gentlemen, we have a quorum. With us, this morning, we have Mr. H. A. Mann, Chairman of the National Harbours Board. He will be a witness this morning and will be willing to answer your questions. I would advise the Committee that we also have here the Minister of Transport who has to attend a meeting of the cabinet this morning, so if the Committee will agree, we will start off with Item No. 1. Is the Committee agreed?

DEPARTMENT OF TRANSPORT

1. Departmental administration, \$4,899,800.

Mr. BELL (*Saint John-Albert*): There is just one question that I wanted to ask. What we were going to do with the seaway item was left up in the air and I am not sure whether it was officially passed but we have been giving consideration to it. I wonder if the Minister has any thoughts about it being possible to hold over the final decision about this toll matter and if the Committee decided later we could have the witnesses appear from the seaway. I am not prepared myself to ask the detailed questions that I think we should—

Mr. J. W. PICKERSGILL (*Minister of Transport*): I think what I would suggest to the Committee is that it would be much more advantageous to everybody to have the recommendations from the Seaway Authority to the government so we have something definite to talk about. They are unlikely, I hope, to be here—I should put it the other way—I hope the estimates will pass before they are able to make that recommendation. I would give an undertaking, if Parliament is sitting, to refer their report to the Committee or to find some other Parliamentary device so that the Committee could be seized of the matter at some convenient time. The only other matter, I think, that is in all our minds, with respect to the Seaway is the question of the impending work stoppage and I am happy to say that the mediation does appear to be going well and I am very hopeful that it will have a happy result.

Mr. BELL (*Saint John-Albert*): We are glad to have some optimism from the Minister because I think we all appreciate the serious effect that a stoppage would mean. Just to clarify then, for the record, we can pass, or consider the seaway item passed here, provided there are not some quick questions some of the members want to ask and, to cover our responsibility, later when the toll and the broad question comes up, if it was desired this Committee could in some way have an opportunity to question the officials in detail.

Mr. CANTELON: There is just one question, I regret that in some inexplicable manner, probably through my own lack of attention, item 105 got through without my noticing it. I wonder, however, if I might just ask one question

about it. There is a deficit there of something like \$2 million and some odd dollars for the operation of the seaway. I was under the impression that, operationwise, the seaway had taken in enough money to pay its expenses but that the reason for the deficit, I expect, is that it has not taken in enough money to finance the debt charges. Am I right in that?

Mr. PICKERSGILL: This is a question that I could not answer without reference material. Mr. Malcolm is here and no doubt could. I would suggest, Mr. Chairman, that as soon as you discharge me, Mr. Malcolm be permitted to be heard on item one to answer those questions which are very useful questions to have answered, and I am sure he would have the information right at his fingertips.

Mr. MACEWAN: I would like to ask the Minister a question Mr. Chairman. The other day I received full answers to questions regarding the first new coastguard ship and, I believe, in questioning, Mr. Baldwin advised me, when I asked him whether the tenders would be on a regional or national basis, it would be a matter of policy, of course, which would be decided by the Minister.

Mr. PICKERSGILL: I will tell you something that is a secret. It is not a cabinet secret so I am not bound to keep it. Mr. Baldwin and I had a discussion about this very question yesterday afternoon and I intend to take it up with my colleagues shortly so that I could not give any answer today.

The VICE-CHAIRMAN: Are there any more questions?

Mr. DEACHMAN: I have a couple of questions to ask but before doing so I wonder whether or not there is anything you would like to say regarding the T.C.A. strike or the Air Canada strike which was on and off very quickly last night.

Mr. PICKERSGILL: All I can say is that these cliffhangers are very hard on the Minister of Transport and I hope we do not have too many more of them. I am vastly relieved that the strike was called off two minutes before it was to take effect in what it is now fashionable to call central Canada, but after it had been in effect for an hour and 28 minutes in Newfoundland and for 58 minutes in the maritime provinces, I am just glad it did not really start in central Canada because I do feel that whether the air line had been able to run or not, it would have been a most unsatisfactory situation and we are spared that.

Mr. DEACHMAN: On page 495 of the estimates, under Vote 25, is the item in regard to the Northern Alberta Railway running to Great Slave Lake and covering \$3 million estimates in 1966-1967 and expenditures since 1963 in the neighbourhood of \$61 million. My question is what were the considerations which guided the government in lending federal aid to the construction of that railway and not to the P.G.E. which is also extending into the north through the province of British Columbia?

Mr. PICKERSGILL: You are referring to the Pine Point Railway.

Mr. DEACHMAN: That is correct.

Mr. PICKERSGILL: That question is slightly embarrassing to me, Mr. Deachman, because the decision about that was made by the previous government when I was in opposition. I opposed that decision very bitterly on

the ground that if the railway would pay, it would almost certainly be built by the Canadian Pacific Railway which, indirectly at any rate, had a very big interest in the mine, and I did not see why the taxpayer should take a risk on behalf of that particular mine. It turns out that what I think I would still regard as a risk looks as though it is going to be a pretty good one and the railway is going to make money. It was not a policy that I supported at that time. On the other hand, in the case of the P.G.E., the government I belonged to, not the present government, but the one before the last one, did assist the P.G.E. for building 50 miles north from Prince George because it did seem to be a reasonable proposition for development at that time. The government of British Columbia have taken the view that the federal government ought to retroactively assist in the construction of the P.G.E. going right back to the very beginning and they suggested that some millions of dollars should be paid to them. Up to now, that is one pressure that I think was resisted by the previous government and it has been resisted by this government. It is very difficult to go back into these things and make that kind of decision because all sorts of claims would be put forward.

The government have taken the view—I think all governments have taken the view—that if there is some real prospect of development in some area where private initiative—and, so far as the federal government is concerned the government of British Columbia or the government of any other province is another private initiative—each proposition should be looked at on its merits. I think you know something about the views of the government of British Columbia with respect to the viability of the P.G.E. Sometimes I find it a little difficult to reconcile some of the statements with some of the other statements but, thank God, that is not my problem.

Mr. DEACHMAN: From year to year, their annual statements show that it is not really all that viable.

Mr. PICKERSGILL: I think I should not be asked to enter into any discussion of that sort.

Mr. DEACHMAN: The next question I want to turn to is at page 505, under Item 35; this relates to the airport at Vancouver and to the access road to the airport. As you know, access to Sea Island today is over a drawbridge and that is a very busy one. It frequently holds up traffic to the airport and there are real problems with that. There has been under discussion between the city of Vancouver, the province of British Columbia and the federal government, the question of another access to Sea Island which would provide transportation the day around to the new airport now being constructed. We were advised when the Deputy Minister was before us and members of his Department that there has been no resolution of this question yet and I wonder whether, sir, at your level there have been discussions between yourself and the province of British Columbia that can give us any comfort that we will have an airport with an access to the city of Vancouver, or whether we will still be faced with the old drawbridge when the beautiful new airport is built.

Mr. PICKERSGILL: I am very deeply concerned about this question myself. I had some discussions with the municipality of Richmond when I was in British Columbia in March, I think it was. It is rather difficult to carry on a discussion of this matter with the government of British Columbia because it is really a

monologue. The Minister of Highways of British Columbia takes the view that they have no responsibility whatever. It is not for me to say what their responsibilities are. It does raise a big question and that is the question of access to all these metropolitan airports.

It does seem rather silly to be getting to the point where you can almost fly from Toronto or Montreal to Vancouver faster than you can get to the airport in Montreal and Toronto and get from the airport in Vancouver to central Vancouver. I am sure it is a problem that has got to be solved. I am quite sure that at some stage the federal government has got to participate in its solution but I think we have got to find some principle on which we can base a policy that is of general application.

There is a peculiar feature about the Vancouver situation. It is an island or the airport is on an island and it does create some special problems from that point of view. On the other hand, of course, once you get off the island the airport is much nearer to the centre of metropolitan Vancouver than the airports in Toronto and Montreal are to the centres of those cities. Vancouver, from that point of view, is very lucky.

Mr. DEACHMAN: What are the political considerations at the three levels of government as to where responsibility lies for access to major airports in Canada from big metropolitan centres. Is there a laid down policy or is each one dealt with as an ad hoc problem.

Mr. PICKERSGILL: No, we have taken the view—and I think there have been perhaps two exceptions to it in the whole history of the airports; I say perhaps two because there were very unusual circumstances in those cases, one was a war-time case—that we have no constitutional responsibility once you get off the property of the Department of Transport. That is, of course, the view that the federal government has taken with respect to all kinds of roads for every other purpose as well. We have contributed a lot of money to roads but we have never taken the responsibility that we have any jurisdiction in the matter. That does not solve the problem. I recognize that. I must say that I am very sympathetic with trying to find co-operative solutions.

Mr. DEACHMAN: If the Committee will bear with me for another moment, Mr. Chairman, I have one more question that I want to put to the Minister and that is based on page 516 of the estimates. It relates to the shipbuilding subsidies under the Canadian Maritime Commission. The question which was put when the Maritime Commission was before us as witnesses the other day was that it appears, and I have considerable evidence here before me, that shipbuilding subsidies have, in fact, been taken up by American-owned firms or American subsidiaries operating in Canada and that this money amounting to from 35 per cent to 40 per cent of the cost of ships, barges, tugs and the like, is leverage in the hands of American companies to put themselves into shipping and shipbuilding in Canada. My concern, Mr. Minister, is that this is an area in which I believe the taxpayer dollars in Canada should be going towards improving the capital and the equity of Canadians and that it should not be going into the hands of Americans and other foreigners. I have a long list of companies of other countries: Holland, Belgium, Denmark and so on, which have benefited from the Canadian subsidy and which have been able to put themselves into competition against Canadian operators by virtue of federal

assistance. I have written to you on this, as you know, and I wonder what progress is being made in investigating this subject and whether any ideas have been formulated by the government in regard to this matter.

Mr. PICKERSGILL: I think the only way in which any change could be made would be to change the Canada Shipping Act to define the nature of a Canadian ship and to make some provisions with respect to ownership. This is a very, very thorny question indeed and I have, in conjunction with the Minister of Industry and the treasury board and the Minister of Trade and Commerce, and I think one or two other departments as well, initiated a study into this matter and, I think, until the ideas have been crystallized more than they have it would be better if I did not shoot off my face about it.

Mr. DEACHMAN: In passing, Mr. Minister, I do not want to pursue the topic at length as long as there is an understanding that something is being done about it. This is a matter that bothers many people on the west coast who have built substantial businesses and substantial equity, only to find themselves now being put to the wall by American companies coming in which have taken the subsidy and used it as leverage to acquire other companies on the Canadian side and to put themselves into sharp competition with Canadian firms operating up and down the coast of British Columbia. I believe this is not unique to British Columbia.

Just before leaving the topic, I want to point to the Merchant Marine Act of the United States which does the very thing that you are suggesting. In other words, it is not possible for a Canadian to go to the United States and even acquire ownership, much less get any form of federal aid. He cannot acquire ownership in a Canadian vessel. So that a Canadian, on this side, would be better off if he were to become an American citizen because then he would be able to do all those things which an American can do in the shipping business and he would still be able to do all those things a Canadian can do in the shipping business. If he wants to expand his operation, let us say, into the waters of Puget Sound and into the Seattle area, the best financial advice anybody could give him would be to go to the United States and take your money down there because if you do, you can now operate as an American and you can operate as a Canadian as well. But, if you stay in Canada, you can only operate as a Canadian and the federal government will help the United States citizen to operate against you. I just want to put this on the record as a most serious concern.

The VICE-CHAIRMAN: Is the Committee agreed that we can release the Minister. I will call Mr. Malcolm to come forward to answer some of your questions.

Mr. PICKERSGILL: Thank you all very much. I really think it is quite important that I should be at the cabinet meeting this morning.

Mr. CANTELON: I would like to ask that same question that I asked the Minister and which I dare say Mr. Malcolm heard. Is the deficit that shows on item No. 105 as an operating deficit, actually due to the fact that you did take in enough money to really pay your operating expenses but you did not take in enough money to pay for the cost of money that was necessary when the seaway was expanded.

Mr. P. E. R. MALCOLM (*President, St. Lawrence Seaway Authority*): Mr. Chairman, item No. 105 relates to the operating deficit and capital requirements of the non-toll canals. These are the Lachine canal, the Cornwall canal and the Sault Saint Marie canal which are entrusted to the Seaway Authority for operation and maintenance.

Mr. CANTELON: In other words, this is a very limited part of your deficit?

Mr. MALCOLM: Exactly. It is not really a part of the seaway proper which recovers its operation and maintenance from the tolls.

Mr. HOWE (*Wellington-Huron*): What about the whole Seaway Authority? Where is the statement with regard to profit and loss? Is it entirely a profitable operation; that there is no loss at all. Is there a deficit on the whole operation.

Mr. MALCOLM: With respect to the seaway proper, there is a deficit and you will find the financial statements of that in the annual report of the authority.

Mr. HOWE (*Wellington-Huron*): Who makes up the deficits?

Mr. MALCOLM: At the present time this is a deficit which is an operating deficit represented by interest deficiency.

Mr. HOWE (*Wellington-Huron*): Which is not here yet. Somebody has to pay it. Does the government not have to assume responsibility for that? Where does it appear in the estimates?

Mr. MALCOLM: It does not appear in the estimates as such but it is not provided for by appropriation.

Mr. HOWE (*Wellington-Huron*): Where does it appear?

Mr. MALCOLM: Merely in the annual statement of the Seaway Authority. If you care to have a more detailed breakdown of that, Mr. Chairman, I can get it for you.

Mr. HOWE (*Wellington-Huron*): What I am getting at, Mr. Chairman, is that some place in this book of estimates there should be an item to take care of that, should there not?

Mr. MALCOLM: Could I call on our Director, Financial and Accounting Branch to answer that?

Mr. J. R. BALDWIN (*Deputy Minister of Transport*): I think this will answer your question. Mr. Howe. The estimates are the actual funds that are physically spent, requiring approval by Parliament and, in the case of the Seaway as I understand it, sir, there is not, in the sense that you requested, a physical expenditure that has to be approved by Parliament. Rather, there is interest accruing which the seaway owes to the government which continues to accrue as a debt owing to the government. The amounts that are physically spent, which are the amount that is in the estimates, is the deficit on the old earlier canals which the seaway still keeps in shape, the deficit that has to be paid on account of the Welland, which normally is voted I believe, sir, through supplementaries, when you know what the item is. The other item that Mr. Malcolm referred to is not a physical expenditure of funds; it is a continuing

debt that is accruing on account of interest to the government and therefore it appears in the tabled report of the Seaway rather as an estimates item. Is this sufficiently clear?

Mr. HOWE (*Wellington-Huron*): The seaway has been in operation for several years and these interest deficits I am speaking about just do not appear in one single year. They have been in every year that the seaway has been in operation. I think, by now, that the Department should be able to give an estimate—it should appear in this book—of how much you are looking for or estimating the deficit is going to be for each succeeding year just as at times it has become—

Mr. BALDWIN: This is available. It is in the seaway report, sir. The question of putting it in the estimates book is something that we would be very glad to take up with the Treasury Board. They are the body who decides what is printed in the blue book in terms of estimates. They had not included this because it was not an actual physical expenditure.

Mr. HOWE (*Wellington-Huron*): There are many things in here that include interest that are not actually physical expenditures. I think, probably, to get a continuing picture of the operation of this thing, this should be shown as a deficit so that we, as a Committee, can get some idea of what is going on?

Mr. MALCOLM: Part of the answer is that the amount that the seaway is short in being able to pay its debt to the government is represented by interest which, at the present time, is recorded by the Auditor General and certified in the balance sheet of the authority. If the authority is able to earn enough money to pay that arrears of interest, then this fact would also be recorded in the annual report of the authority which has to be tabled with Parliament. If the government were to decide to write off a part of that deficit, then it would appear in the blue book. The government is not writing off any part of that debt at the present time.

Mr. HOWE (*Wellington-Huron*): These are the estimates for the next year. The government could not show here that they were writing anything off because this is not the public accounts; this is the estimates for the next year.

Mr. MALCOLM: We are not given any relief from that interest, Mr. Chairman. Accordingly, it merely accrues as a deficit as long as we owe it.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, an estimate would be helpful because we know there has been discussion about this matter in the Public Accounts Committee. I do not think we want to duplicate this matter. It is probably their prime responsibility. I notice the annual report refers to the different operating deficits of which Mr. Howe has been speaking. This is what they say. "The position of the authority with regard to its obligations to the government of Canada has been clarified". I ask how has this been clarified? In what way? This would help the answer that Mr. Howe is probably seeking.

Mr. MALCOLM: Perhaps the explanation, Mr. Chairman, in that regard is that included in the total deficit of the Seaway Authority is the operating and maintenance costs of the Welland canal from which no tolls at all have been collected since 1962. This accumulated deficit was included in the total amount of the obligations of the Seaway Authority and was a charge against the tolls on

the St. Lawrence section. This tended to confuse the whole financial situation of the authority. Consequently, the government, by means of a vote item, picked up the accrued deficit of the Welland canal and relieved the authority's obligation for that amount. In other words, they provided, by appropriation, for the operation and maintenance costs of the accumulated deficits of the Welland canal.

Mr. BELL (*Saint John-Albert*): Mr. Howe's answer, then, is that it is in the item for the Welland canal.

Mr. MALCOLM: That is correct, sir.

Mr. HOWE (*Wellington-Huron*): Was the Minister not given an undertaking that this authority would be before us, Mr. Bell?

Mr. BELL (*Saint John-Albert*): Yes, as I understand it, when the matter of tolls comes to a head to the government in the final recommendations of the Authority to the government, if this Committee so desired, as the Minister said, we could examine them then in detail and this would all be part of it.

There is one question that I would like to ask. I asked this in the House and received some answer. What is the power of the St. Lawrence Seaway Authority to construct large new projects? For example, I would take it that on a year to year basis, they can repair canals and make routine expenditures and that is all contained in the estimates. It is certainly within the over-all authority. But to begin a big project like the twinning of the Welland canal or something of a major item, do you have the authority to do that or does it go to the Governor in Council or would there be new legislation?

Mr. MALCOLM: There are two answers, in fact. Money for capital expenditures made by the Seaway Authority is contained in the capital budget of the authority which, as a crown corporation, requires the approval of the Governor in Council in advance of the fiscal year in which the expenditures are to be made.

With respect to a large program such as the twinning program of the Welland canal, this came before Parliament when the item, section 13 of the St. Lawrence Seaway Authority Act was amended to provide for increased borrowing power of the authority to allow the authority to borrow the moneys required to carry out that construction. This required the specific approval of Parliament.

Mr. BELL (*Saint John-Albert*): I think that was in the supplementary estimates and this would become a part of your financial statement from then on.

Mr. MALCOLM: Yes.

The VICE-CHAIRMAN: Is item 1 carried?

Item agreed to.

The VICE-CHAIRMAN: Item No. 100.

NATIONAL HARBOURS BOARD

100. Advances to National Harbours Board, subject to the provisions of section 29 of the National Harbours Board Act, to meet reconstruction and capital expenditures during the calendar year 1966 as detailed in the Estimates, \$5,138,200.

Mr. HOWE (*Wellington-Huron*): Mr. Vice-Chairman, I was just wondering about the increased expenditure with regard to Chicoutimi from \$20,000 to \$460,000.

Mr. H. A. MANN (*Chairman, National Harbours Board*): Mr. Chairman, we have some expenditures which are necessary at Chicoutimi during this year. One of these relates to the dredging of berths to take ships that present themselves at Chicoutimi now. The largest ships that are presenting themselves at Chicoutimi harbour cannot now be accommodated at the existing berth without dredging. In order to allow the traffic to go there we must dredge the berth.

Secondly, at the west of the harbour one of the old timber wharves is in very poor condition and it must be reconstructed in order to permit the harbour to have the facilities that it requires. These are very large items and that accounts for the increase practically in toto.

Mr. HOWE (*Wellington-Huron*): Is Chicoutimi on the Saguenay River?

Mr. MANN: On the Saguenay River, yes.

Mr. HOWE (*Wellington-Huron*): I was just wondering—

Mr. CANTELON: Is that Port Albert?

Mr. MANN: No, it is not Port Albert but it is pretty close.

Mr. HOWE (*Wellington-Huron*): I was just wondering, as the tourist service is going to be discontinued on the Saguenay River, will there be enough freight service in there to make this type of expenditure necessary?

Mr. MANN: The tourists did not really account for very much of the freight going through. In fact, there was no direct connection at all. This was just the excursion that Canada Steamship Lines ran from Montreal. This has gone now. We are dealing with a very flourishing economy in the Lake St. John area and this, of course, must be serviced.

Mr. SOUTHAM: Thank you, Mr. Chairman. Under Vote No. 100 referring to Churchill, I was wondering about the figures quoted here. Is this for improvement or for further construction of facilities to accommodate larger grain shipments, storage space and so on. What do these figures entail here? I am thinking of the fact that we are pressed for storage space now for the getting of western grain into export position?

Mr. MANN: By and large the item under Churchill deals with the upgrading of the grain elevator electrical system which we must do in order to modernize it. It does not provide more storage. There is another item in there, another matter we are dealing with also and that is the replacement of grain cleaners. This, of course, is a rather important one for the movement of the grain.

Mr. SOUTHAM: This would in fact facilitate greater movement of grain through that port.

Mr. MANN: It will allow us to increase the speed.

Mr. SOUTHAM: Which item is that? There are two items here. One in the amount of \$25,000 and this other greater one of \$559,800. Which one is envisaged for the cleaners? I presume it is the bigger one.

Mr. MANN: I arrived from Vancouver at three o'clock this morning and my material is, perhaps, not in the shape that it should be.

Mr. SOUTHAM: This item of \$559,800 is a substantial sum. I was just wondering what this appropriation was for. Was this for enlarging the cleaners and the accommodation for—

Mr. MANN: That would be included in the \$559,800. I should have had the little printed thing in.

Mr. CANTELON: There has been some talk about diversions of the river there in order to give a longer period of ice-free water. Are any research works being done in that connection?

Mr. MANN: We have been in touch with the National Research Council and they are doing some work for us to investigate the feasibility of this. There are no results from this. This is rather painstaking work and requires a lot of research so there are no results at this moment.

Mr. CANTELON: I know this will be rough but have you any idea at all about what the costs of such a diversion might be?

Mr. MANN: In the first place I would not want to guess, with the problem of construction cost increases that bear on this.

Mr. CANTELON: I understand.

Mr. MACEWAN: I wonder if Mr. Mann could give the Committee an idea of what construction improvements there are to be in Halifax.

Mr. MANN: Halifax is going to be a rather exciting place this year, Mr. MacEwan. We have actually acquired property behind the seaward defence area which we have reacquired, I think would be the term to use, from the navy. We will now be in a position to have available to the harbour a very large area of back-up land, which in conjunction with a revitalization of seaward defence area would provide Halifax with some extremely modern berthage facilities. We are also building a new shed 33 and that accounts for quite a bit. We are finishing the unloading leg, the marine leg, which was a rather expensive item. This was to provide, a faster rate of unloading, 36,000 bushels an hour instead of what I believe was around 12,000 an hour, the old marine leg. This should have a rather good effect on the turnaround of vessels to Halifax. Then, there are a whole lot of other little things in this.

Mr. MACEWAN: On this marine leg, Mr. Mann, has the contract been let for that yet?

Mr. MANN: Yes. The marine leg is actually almost finished. It should be finished in July, I think.

Mr. MACEWAN: Was there not another tender called for some facilities for grain there which has not been let as yet?

Mr. MANN: I do not know what the current status of this is. There is an improvement of grain shipping facilities. This is the other wing of this particular chicken providing for the improved unloading. We also have a problem of keeping the modernization program off and, therefore, we are going to provide increased speed of grain shipping facilities. I would just like to see

the current status of this. We have decided to go ahead with this and recommended this. This should allow at Digby a larger vessel to take grain at a faster rate.

Mr. MACEWAN: This contract has not been let as yet?

Mr. MANN: As I just said, I have not had a chance to check before I came here this morning.

Mr. MACEWAN: On these larger matters, I take it that it is necessary that Treasury Board pass them?

Mr. MANN: Yes.

Mr. MACEWAN: Finally, I was wondering whether the National Harbours Board was involved in the negotiations with Volvo.

Mr. MANN: Volvo is expected to occupy an area which the National Harbours Board administered on pier nine. There will be a lease and the operation will actually take place on National Harbours Board property. So we are very much involved in negotiations.

Mr. MACEWAN: You dealt with Industrial Estates on that?

Mr. MANN: Yes.

Mr. HORNER (*Acadia*): Under National Harbours Board, why is Vancouver not on this list of expenditures you have here.

Mr. MANN: L85.

Mr. HORNER (*Acadia*): L85. Are we by that already, Mr. Chairman?

The VICE-CHAIRMAN: That was voted on, on Tuesday, Mr. Horner.

Mr. HORNER (*Acadia*): I am on the Agriculture Committee. I would like to ask a general question on the National Harbours Board. What over-all plan has the Harbours Board got for the port at Vancouver, or have they any?

Mr. MANN: We have indeed great plans for the port of Vancouver.

Mr. DEACHMAN: Mr. Chairman, in view of the question that has just been asked and because of some very stirring developments which have taken place in the last couple of days, if Mr. Horner would permit me to make a preface to his question, which I think would be of assistance to the Chair and also to Mr. Mann who, I think, has some very interesting things to say about Vancouver Harbour, what I would like to say is that members may recall in the House on June 10 a question was put to the Minister of Transport as follows: "Could the Minister say something today which would put an end to the long standing dispute between the National Harbours Board and the Canadian Pacific Railways in the Port of Vancouver". Mr. Pickersgill replied, "I am happy to say that this long standing dispute which has delayed the development of Vancouver harbour is over and an agreement between the Harbours Board and the CPR will be signed in Vancouver today. This should mark the beginning of a new era of expansion in the Port of Vancouver".

On the day following the agreement, Saturday, June 11, the Vancouver papers found this so exciting that they devoted literally their whole front pages to the signing of the agreement between the CPR and the CNR which was

handled by Mr. Mann and Mr. Crump. Basically, what it does is change the whole face of downtown Vancouver and the whole face of the port of Vancouver and its entire relationship to western Canada as a deep sea port and the main outlet on the Pacific coast to western Canada. I just wanted to make this most important preface and to ask, with permission of Mr. Horner, if Mr. Mann would outline the nature of this agreement and what it means to the port of Vancouver and what the long trend effects of this will be?

Mr. HORNER (*Acadia*): We will have to table this in the Committee for seamen.

Mr. DEACHMAN: It is quite a story.

Mr. HORNER (*Acadia*): Quite a lot of propaganda, too. I would like to know what plans the National Harbours Board has for the development of the port of Vancouver?

Mr. MANN: Perhaps if I might combine both the questions and the various parts of my answers, Mr. Horner—

Mr. BELL (*Saint John-Albert*): Could I just ask where that item is, in the estimates, that you referred to contains the references to Vancouver?

Mr. MANN: It is L85.

Mr. BELL (*Saint John-Albert*): We have no L85.

Mr. MANN: I am sorry, it is L90, now.

Mr. DEACHMAN: Mr. Chairman, are we not able to discuss any matter affecting the National Harbours Board under item 100? I thought we would be free to take up any matter relating to National Harbours Board matters quite freely under item 100, as we have been doing here this morning.

Mr. BELL (*Saint John-Albert*): That is right, Mr. Deachman. I just wanted to get the particular reference. My suspicious maritime mind leads me to ask where the particular item is concerning Vancouver.

Mr. DEACHMAN: Mr. Chairman, I think if members will look at page 517, there they will see Vote No. 100, National Harbours Board; under that you will see the items under the vote which deal with construction and acquisition in all ports. Those come under items 13, 16, 22 and 34 of Vote No. 100. Vancouver is not included among those but this covers those ports to which votes were made.

Mr. BELL (*Saint John-Albert*): Montreal and Vancouver are included in that?

Mr. DEACHMAN: Votes of Construction or Acquisition of Buildings; these were the votes that were made for that purpose in those harbours.

You say you do not understand why Montreal is not included or why Vancouver is not included in those votes.

Mr. MANN: Page 549 is the page I think you want on this one. Item L90 Advances to National Harbours Board, subject to the provisions of section 29 of the National Harbours Board Act to meet expenses and so on, and we show in it St. John's, Belledune, Montreal and Vancouver.

Mr. BELL (*Saint John-Albert*): Why the difference in the two items?

Mr. MANN: This is, I believe, an arbitrary division that was made some years ago. It is expected that these ports can meet their current expenses and can repay their loans on a current basis.

Mr. BELL (*Saint John-Albert*): Thank you very much for that information. I take it, then, there is an arbitrary division between the National Harbours Board ports. There are two separate items. One covers, not necessarily the larger ports but the ports where there is less chance of there being a deficit in those ports than in the others.

Mr. MANN: It would be very nice if they were all under L90.

Mr. HORNER (*Acadia*): I do not see how we can deal with L90, because that is not even under the Department of Transport. I think the question is well in order here under National Harbours Board, Mr. Chairman and I would like to hear a brief outline of the plans for the development of that port.

Mr. MANN: The cork, I think, has been taken out of the bottle in a sense by something that we have been able to do which goes back to 1880. We had just been able to resolve Canada's longest standing land dispute which was between the Canadian Pacific Railway Company and the predecessors of the National Harbours Board at various local commissions. I will not weary you with the details but it got too involved finally about, I believe, one and a half miles of what, over the years, has become probably one of the most valuable pieces of downtown property between roughly Cardero Street and the foot of Dunlevy. This takes in a wide stretch. We felt that we should try and do this on a business-like basis by negotiation with Canadian Pacific. Previous attempts to do this had not worked. In 1928, for instance, an arrangement was made by the then local harbour commissioners on only a very small part of the area and all they could come up with was moneys from rentals in the area should be put into escrow funds by both sides pending final settlement. That was in 1928 and was an interim arrangement.

We sat down in October, 1965, and started a series of meetings with Canadian Pacific which, on May 26, I believe, I am working from memory, resulted in an agreement which we signed in Vancouver, Mr. Crump and I on behalf of the board, in Vancouver on Friday last. Under this agreement, we divide the land in dispute. Canadian Pacific Railways will have clear title to what is roughly the westerly area. Are you familiar with Vancouver? It will have the more westerly part, which is not the most useful part for harbour purposes. We will obtain clear title to the more easterly part which is the one area marked out for future development. What we will be able to do now, as a result of this negotiated agreement, is to develop general cargo berth from, roughly, the extension of our centennial pier which we are completing now, to a little east of pier B.C. Pier B.C. is a facility which has been very picturesquely described along with pier A., by Mr. Deachman, which description can be found in *Hansard*. We have acquired pier B.C. on a basis which allows us to lease it back to Canadian Pacific over a 20-year term at a rental which will practically recover for us all the outlay we have made on it.

We have also been able to put in, as an obligation on Canadian Pacific, a little provision which simply says that Canadian Pacific as the lessee of this

pier, which they have sold to us, must accommodate all ocean passenger vessels at this pier. There had been some fears in Vancouver that Canadian Pacific would terminate its contract with the P. and O. lines which bring vessels into Vancouver. Canadian Pacific, for its part, also announced, what they call project 200, which is substantially a commercial, residential development in the downtown area which has also now been made possible because of the clearance of title. It is called project 200, according to Mr. Crump, because upwards of \$200 millions of investment will be involved on the part of the syndicate consisting of Canadian Pacific, Grosvenor-Laing and Woodwards and some others as yet undisclosed.

Mr. HORNER (*Acadia*): I am not really concerned with the commercial development of downtown Vancouver; I am concerned with the port development. You mentioned passenger vessels; what about cargo vessels? This is my concern.

Mr. MANN: I thought I indicated that as a result of this, Mr. Horner, the area from centennial pier extension to pier B.C. will be available for general cargo berth construction and these—

Mr. HORNER (*Acadia*): Will this increase the harbour facilities.

Mr. MANN: It will certainly more than double them.

Mr. HORNER (*Acadia*): It will more than double them for ocean-going vessels?

Mr. MANN: That is correct. That is only part of it.

Mr. HORNER (*Acadia*): When will this be available?

Mr. MANN: The first phase of this development—and you can appreciate that this is a long term phase development—will be started very shortly. There is some detailed planning necessary and it will start in the area immediately east of pier B.C.—I will describe it for you this way—and going to, roughly, western water terminals. This will allow us to have three modern general cargo berths with ample back-up land suitable for modern harbour conditions.

Mr. HORNER (*Acadia*): Are the railroads—the Canadian Pacific and the Canadian National—prepared to enlarge the trackage into this new frontage?

Mr. MANN: Canadian Pacific has undertaken to supply the areas now exclusively served by Canadian Pacific. This will continue and Canadian Pacific, as a result of the agreement which they have written with us, have obligated themselves to provide, at no cost to the National Harbours Board, all necessary trackage for the area.

Mr. HORNER (*Acadia*): One further question, if I might; in the Agriculture Committee of last week, Mr. McNamara stated that the cause of one of the bottlenecks in Vancouver was the need for in some of the port areas double trackage. Mr. Sinclair, before this Committee, privately told me that he did not agree with this at all and that this was not necessary. Certainly you are aware, and most people are, that there was considerable tie-up at Vancouver this past winter. With the increased tonnage of products going through Vancouver, we, in western Canada particularly, are greatly concerned about the expansion of that port and we want all haste in that development. I am pleased to see that

the National Harbours Board now has a plan and are going ahead with development of it.

Mr. MANN: I would like to clarify this for one second only. The potash movements are currently taking place at Port Moody which the CPR serve, and at Vancouver wharves on the north shore which the CNR, PGE serve. Canadian National Railways has, as you know, announced plans for a new crossing so that, according to what I read in the papers, there ought to be some rather improved transportation to the north shore on both traffics. Perhaps, Mr. Chairman, with your permission and with Mr. Horner's and Mr. Deachman's, I would like to set something straight which bothers us at the National Harbours Board very much, namely, statements which have been made that there is not sufficient space for cargo in the port of Vancouver. We do not agree with this at all, and I think I want to just say that it is about time that a distinction should be made between fact and fancy. We have plenty of area available in Vancouver harbour to take all the potash that is envisaged now. We have plenty of room available in Vancouver to allow yet another increase in wheat movements. Saskatchewan wheat pool has decided to go ahead with its grain elevator on the north shore so that these statements of despondency, I think, ought to be looked at a little more objectively.

Mr. HORNER (*Acadia*): You can rest assured that we are going to watch the development of the port of Vancouver very closely.

Mr. DEACHMAN: Mr. Chairman, I would like to pursue a little further some of the matters which have already been raised by Mr. Mann this morning. In regard to the Canadian National crossing to the north shore and the arrangements which will give the CPR exclusive use of trackage on the south shore, is this going to tend to divide the harbour into a Canadian National side and a Canadian Pacific side and is there going to be interswitching charges which will tend to further divide this traffic.

Mr. MANN: There has been nothing done under this agreement that is not already in effect. There is a division, at the moment in the harbour, the north shore being Canadian National served and the south shore being Canadian National and Canadian Pacific but predominantly Canadian Pacific served. There is interswitching and, I think, on grain, so far as I know, and I am talking from memory here, there are no interswitching charges so that grain that goes over from local Canadian Pacific stations to the new Saskatchewan wheat pool elevator will not suffer interswitching charges. This does not, as far as I know, hold true for other bulk commodities which will be subject to interswitching charge.

Mr. DEACHMAN: Does that mean that potash going to Vancouver wharves on the north shore is going to be subject to interswitching.

Mr. MANN: It is now if it originates on Canadian Pacific.

Mr. DEACHMAN: If it originates on Canadian Pacific? So, actually, the rights to the Canadian Pacific Railway bulkloading terminal at Port Moody will be cheaper than the rights to Vancouver wharves on the north shore by the difference of the interswitching charge. Is that right?

Mr. MANN: The origin of the potash destined to Vancouver wharves is Canadian Pacific, yes.

Mr. DEACHMAN: Has anything been done to work out reciprocal arrangements which would tend to level these charges or absorb them so that traffic would flow freely without interswitching charges around both sides of the harbour?

Mr. MANN: I am afraid I cannot answer this. There may have been discussions or there may be discussions between the two railways.

Mr. DEACHMAN: I want to deal with grain handling. As you know, we have had some very grave problems in the port of Vancouver not only from the standpoint of capacity but, as Mr. Horner mentioned a moment ago, from certain difficulties in regard to rail handling. Last January and for some time a co-ordinator was put into the port and Mr. Riddell succeeded in bringing about, I think, certainly in part due to his co-ordination, some record breaking shipments out of the port of Vancouver. It is not so much that we are interested in breaking records as we are in breaking the log jam of the very many vessels that we frequently see standing in the port waiting for grain for over a week at a time. I wonder if you could comment on just what is the picture in the immediate and foreseeable future in regard to this.

Mr. MANN: I think it probably is going to be better. There was, as we understand it, some difficulty about car supply. There was also the difficulty of not having the right grades and the right quantities at the right locations. This, I believe, was one of the major problems. It accounted, more than anything else, for the ships that were so obviously visible out in the stream. It was not the shortage of berth for grain as much as it was the failure of supplies available at the time. Mr. Riddell's work has helped very much. I should think that some better co-ordination and adequate box car supply should certainly spell some improvement for the future.

Mr. HORNER (*Acadia*): A supplementary question, does the National Harbours Board have any elevators out there or terminals or is it all privately owned.

Mr. MANN: No, we have four elevators which we own in Vancouver but we lease them all. We do not operate them ourselves.

Mr. HORNER (*Acadia*): Could it be suggested that these elevators are old and outdated?

Mr. MANN: It could be suggested; I would not necessarily agree with it.

Mr. HORNER (*Acadia*): I think Mr. McNamara, in the agriculture committee last week, made that suggestion. Because the lessees do not want to spend any money on improving them or modernizing them, he, more or less, hinted that a better arrangement should be brought about. One can understand that a person leasing an elevator is not inclined to spend very much money improving it or modernizing it. Could you give the Committee some date when these elevators were built and when they were last modernized or if they were?

Mr. MANN: I have not got the date here but I would like to pick up one part of your question, Mr. Horner, if I may. I wonder whether you can make that categorical statement that leased facilities are not being improved as much as privately owned facilities because you have, in the port—

Mr. HORNER (*Acadia*): I did not say that privately-owned ones are not too. I just said the lessee is not inclined to improve.

Mr. MANN: That is correct. The owner, apparently, has not been inclined to do it either very much because Burrard Terminals over on the north shore, which is privately owned, still has a wooden workhouse which, if you want a definition of antiquated facility, I suppose you will find it there. The Alberta Wheat Pool has a good facility; it owns it. It has had all along the ability to improve it.

Mr. HORNER (*Acadia*): Is it fairly new?

Mr. MANN: It is fairly new. There is room to extend. There is room to improve the piers and there is, perhaps, need to.

Mr. SOUTHAM: I would like to ask a supplementary question, Mr. Chairman, to the suggestion by Mr. Deachman that last January we were aware that there was a log jam in the port and you answered him that it was one of the results of having the wrong types of grain and grade of grain at the wrong place at the wrong time. Would you care to describe who would be to blame for this situation so that we could avert in the future.

Mr. MANN: I am sorry. I do not know enough about it. This really falls more into the realm of the Wheat Board and Mr. McNamara's experience than my own.

Mr. SOUTHAM: Because it is a very pertinent question and we have to learn from experience. I would like to know just where the blame could be laid.

Mr. MANN: We are sort of marine animals and our knowledge of grain operations certainly, should not be expected to be as extensive as the Canadian Wheat Board.

Mr. DEACHMAN: Mr. Chairman, I think we would like to see how private enterprise behaves on the harbour when they own and operate their facilities. Mr. Horner ought to come and look at the Canadian Pacific Railways wharves in Vancouver which will now be taken over by the Harbours Board, because those facilities were terrible.

Mr. HORNER (*Acadia*): It is really enlightening to hear Mr. Deachman say this. I wish he would have said it when Mr. Sinclair was here, because then I would have liked to ask Mr. Sinclair a number of supplementary questions on why he, for years, has been holding back, according to Mr. Deachman, the development of the Vancouver port. I would like to have Mr. Sinclair answer that question. I am sorry Mr. Deachman was not here and did not pose that same question when Mr. Sinclair was here.

Mr. DEACHMAN: Mr. Chairman, if Mr. Horner will look in the records he will find where I examined Mr. Emerson at length in regard to the port facilities in Vancouver and I certainly pulled no punches in regard to what those facilities amounted to and what they were. There was considerable examination in this room in regard to it. It was not a case of my not being here. The record stands in regard to all those matters. I would like to continue, if I may, Mr. Chairman. I see your gavel half way up. On the subject of grain handling, Mr. Mann, what about dredging programs in the port of Vancouver in grain berths over the course of the last few years to accommodate larger vessels

seeking access to grain loading jetties. Have they been improved? What has happened there?

Mr. MANN: I think, and again I am working from memory now, we have dredged a little bit at some of the grain berths and we are also extending some of them to take the longer vessels. The new facility of the Saskatchewan Wheat Pool which we built on the north shore on land leased from the National Harbours Board will, I believe, allow for a depth at berth of 45 feet at low water. This should take very large vessels.

Mr. DEACHMAN: Mr. Mann, are we going to be able to dredge to 45 feet on the south shore, alongside the grain jetties there, or will there always be a problem because of the type of wharf construction in getting sufficient depth of water there?

Mr. MANN: I will just check here. So far as I know, we can dredge, without very major problems, grain berths at the south shore to an adequate depth for larger vessels.

Mr. DEACHMAN: Recently there was a vessel which came alongside one of the jetties, I do not just have the information in front of me as to which one, on the south shore. This vessel was so long that it could only load at about one half to two thirds of its hold at one time because the jetty was not long enough to load grain into all holds. How about the program of lengthening jetties to accommodate the longer length of vessels?

Mr. MANN: The vessel you refer to, Mr. Deachman, was the *Sonic*. It had one end sticking out in the stream and it was berthed, as far as I recall, at elevator No. 3, which was leased from us by United Grain Growers. This jetty is now being extended so that the *Sonic* when it presents itself in future, should find itself a little better accommodated.

Mr. DEACHMAN: Mr. Mann, I would like to turn from grain handling, to the question of port charges. I discussed this with the Deputy Minister in connection with pilotage but now I would like to discuss it in connection with the charges on vessels levied by the National Harbours Board in the port of Vancouver. My reasons for raising this are that on February 22, 1966, the Hon. Ralph Loffmark, minister of industrial development, department of trade and commerce of the government of British Columbia, filed in the British Columbia house a paper covering port charges in which he alleged that port charges in the harbour of Vancouver were out of line with charges in other ports and that the port of Vancouver was not competitive. I know you are familiar with this but I would like to learn, for the record, what the National Harbours Board has to say about this assertion regarding its harbour in Vancouver.

Mr. MANN: We are familiar with the charges, of course, and when the Minister of Transport was out in Vancouver on March 8, I believe it was, there was an analysis made of the statements made during the budget address in the British Columbia legislature by the minister of trade and industry of British Columbia. We found that the figures given by Mr. Loffmark, at the time, were, to say the least, rather erroneous and we have prepared a statement—it is a rather lengthy one, I have copies here if the Committee wishes to have them—

which certainly shows very clearly to our satisfaction and to the satisfaction of those who are familiar with port operations, and with the operation of steamships, that these allegations are not well founded. We have made comparisons on a realistic basis using ships that we have had go through the harbour with cargoes that we have had go through the harbour, and we find that by and large the Vancouver charges are on a par with those of Montreal, which is the same as the eastern Canadian ports under our administration and that they are much lower than charges at ports such as Tacoma, Bellingham, Seattle and Portland which might conceivably be described as competitive ports to Vancouver.

In our opinion there is no substantiation for these allegations and I personally and our board cannot quite see what they do other than perhaps convince people not to come to a port that is good.

Mr. DEACHMAN: Mr. Chairman, we had the figures in regard to pilotage placed on the record the other day. To complete the record, I wonder whether these figures, if they are not too long, could be included in the proceedings which would mean that we would have, on hand, the analysis of the National Harbours Board in regard to this. I think it would be valuable to the Committee because it is an assertion by another government body, by a minister of another government, that the National Harbours Board is not competitive. I think we owe it to the National Harbours Board to include in the record their figures in regard to this. Therefore, I would move that these figures be included in the proceedings.

The VICE-CHAIRMAN: Is it agreed?

Agreed.

Mr. DEACHMAN: Thank you.

Mr. HORNER (*Acadia*): I would like to go back to port terminals and grain terminals out there. I do not think you answered my question, Mr. Mann, with regard to how old the four terminals are, that the Harbours Board own.

Mr. MANN: I have not got the information here but if it is all right, can we supply it to the Committee? We have the data available in the office.

Mr. HORNER (*Acadia*): Could you give me an idea. I would be pleased if you could supply it, but could you give me an idea within, say, five or six years?

Mr. MANN: The first one which, I believe, is called Steven's Folly, because no one believed that Vancouver would ever be a grain port, was built, I believe, in the early 1920's. The other ones would date after that. Mr. Horner, I would not like to say the 1920's, I have a feeling that perhaps it might have been 1916, but I am not sure.

Mr. HORNER (*Acadia*): Yes. That bears out what I have been thinking that perhaps Mr. McNamara, the chief of the Wheat Board, was correct in saying that there should be a great deal of modernization carried out in these terminals and maybe even more terminals built. You suggested that the Alberta Wheat Pool could enlarge their terminal?

Mr. MANN: They have space there to enlarge. Burrard Terminals on the north shore have space to enlarge. The Saskatchewan Wheat Pool, as you know is now building, or is going to build, a 5 million bushel modern building.

Mr. HORNER (*Acadia*): They were going to build for a number of years. They have been holding back for some reason or another.

Mr. MANN: An announcement was made by Mr. Gibbons, the President of the Saskatchewan Wheat Pool some time during the middle of May.

Mr. HORNER (*Acadia*): The announcement was made?

Mr. MANN: Definitely.

Mr. HORNER (*Acadia*): That they definitely were going to go ahead and build?

Mr. MANN: Yes, and I think there is good reason to believe that they actually will because the pilings are already in the ground.

Mr. HORNER (*Acadia*): Yes, I think now that they will. If he said they will, they will, but the point I am trying to make is that they held back. They were going to. It was suggested, I think, two years ago that they were going to build but they never did. I am pleased to see that they are now going ahead. Have there been any negotiations carried on between you people and United Grain Growers? They have not got a terminal out there. They are leasing from you. Am I right? Have there been any negotiations carried on to lease land, and perhaps they would build?

Mr. MANN: There have been negotiations, Mr. Horner, for United Grain Growers and ourselves to acquire elevator No. 3—to purchase it outright.

Mr. HORNER (*Acadia*): These are completed now?

Mr. MANN: No, they are not. They are still under way.

Mr. HORNER (*Acadia*): I hope that you are not too hard to get along with because—not that I am a great United Grain Growers supporter but we do need, and I think it is evident, more terminal space out there and anybody who is prepared to build, I think, should be given every co-operation in this regard. I would like to see more money under L90 spent out there in modernizing the terminals now owned by the National Harbours Board.

Mr. MANN: There is quite a bit being done on that score also, Mr. Horner, by way of updating electrical wiring to bring it up to code, by way of providing dust control and such like, and as I mentioned earlier, the extension of the grain jetty.

Mr. HORNER (*Acadia*): The extension of the grain jetty and the wiring and dust control, but grain movement today, with automation what it is, grain unloading and grain loading can become very very modern if facilities are provided and money is spent to develop them. A year ago we saw elevator operators out there go on strike and hold up grain shipments which Mr. McNamara said we are just now catching up to because of the loss of grain sales out there. We in the prairies, I am speaking generally, want to see every advantage taken of modern technological advances in our grain handling out there because it means a lot to us and has meant a lot to Canada in recent years.

Mr. MANN: I can assure you, Mr. Horner, on that score that we are doing everything we can to modernize. I must say, and I hope you will forgive me for saying it, that the age of the facility itself is not necessarily an indication of its efficiency. We have an elevator at Churchill which manages to put out a tremendous volume of grain in the shipping season which is about 100 days. That elevator was built, I think, in 1932 or 1933, or thereabouts.

Mr. HORNER (*Acadia*): Oh, yes, the building itself. I am just stating what Mr. McNamara said in the Agriculture Committee. If the proceedings were printed I would have them here before me but they are not out yet. I am recalling from memory, I may be wrong, but if I can remember right, he said they needed a great deal of modernization and I am urging you to borrow money under loans and investments, under L90, and modernize them so that we can take advantage of every advance made in automation in this regard.

Mr. MACEWAN: There is just one comment I would like to make, Mr. Chairman. I note quite an increase this year from last year at the port of Saint John and I just wanted to say that there must be quite an active member for that area. I have no questions. I have answered it.

Mr. SOUTHAM: A supplementary question on the discussion that Mr. Horner has introduced here. I want to go on record as supporting his comments, very much so. I come from an agricultural area that is quite interested in the port of Vancouver owing to the fact that a lot of our shipping season is tied up because of the freezing over of the St. Lawrence Seaway and we are looking more and more to this development on the west coast. I was interested in Mr. Mann's comment a few minutes ago and I appreciate his frankness in answering our questions. He made the statement in reference to the expressions of pessimism and so on in the various parts of the grain trade last year because of this tie up that Mr. Deachman mentioned and this backlog or log jam in the port. You made the statement that you had to clarify the record. I think you used the term "between fact and fancy". I do not think it was so much fancy because we did have this deep concern and, as you pointed out a few minutes ago, one of the problems was having the various grades of grain in position at the right time when the world market demanded these. This is very very important. To me they are commitments because this whole panorama has developed in the last five or six years, this expanding market and selling grain on time. It has opened up a great opportunity for western agriculture, to get the grain on the world markets on a competitive basis. I think the very fact that the Saskatchewan Wheat Pools under the leadership of Mr. Gibbons, as you mentioned a few minutes ago and I agree with it, have announced the construction of a new large terminal there in Vancouver, indicates the fact that there was this log jam and that there were not the port facilities and I think that Mr. Horner's remarks were well taken that we should, under the guidance of the National Harbours Board, and government supervision and so on, take a very serious look at this thing to make sure that we are not lagging behind; that we are making plans for the future to accommodate these expanding markets. We had anticipated this year getting 600 million bushels of wheat into market but because of the longshoremen's strike we may not reach that. Who knows maybe next year we might be able to move 700 million. I say, let us provide the facilities. I do not think we just want to put it off as all fancy. There were some facts to this problem. As I say, I am glad to see that Mr. Gibbons of the Wheat Pool is

taking action. The National Harbours Board have the responsibility too to follow through with modernizing and enlarging those facilities and so on.

Mr. MANN: If you would just allow me, I would like to clarify this "fact and fancy" phrase I used earlier. This was not used, as you will probably note from the record, in relation to the grain movement. I used it in relation to allegations that were made that no space is available, no land is available in Vancouver harbour for expansion. On the grain movement itself, sir, in 1964, we shipped out of Vancouver 202,599,272 bushels. In 1965, the year following, we shipped only 168,297,964 bushels. There was no change in the capacity; therefore it should really become quite apparent that there was unused capacity in so far as elevators are concerned.

Mr. SOUTHAM: This was the result of the grain-handlers' strike at the west port at that time.

There were circumstances that cut this down but I am speaking of the graph of statistics. We have, as I say, very optimistic expectations and hope for larger increases in volume of movement of grain out of that port.

Mr. MANN: The decision that has been reached to go ahead and spend what will amount to about \$20 million on a new grain terminal I think bears out your optimism.

Mr. SOUTHAM: I think this bears out the remarks that Mr. Horner made and I think we all together, the various functions, the National Harbours Board, the private grains trade and so on, should be taking steps to promote plans for the future so that we do not find ourselves in positions where we have this log jam sometimes, with boats waiting because of not having grain in position.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, I would like to go to the east coast, if we are through with Vancouver and I would like to take the opportunity of thanking my roommate of the transport hearings out west for complimenting me. I do not know whether this is because he has a guilty conscience, on account of his insufferable behaviour on that trip, or whether he feels that I was so unbearable that he has to make me feel good.

I have some detailed questions, Mr. Mann. You can use your own judgment whether you want to answer them quickly or in detail. I hope you will take it as a tribute to a very busy and important agency, if we ask a lot of questions, and not necessarily because we are being critical of your activities. First of all, I see from your annual report, released in April, that you had another very successful year in so far as over-all cargo tonnage is concerned. It appears that each year you are showing successive increases and that is good. I would like to ask, first of all, has there been any increase in the number of harbours under the board? Does this explain the increase, or is it just because there is generally more activity through ports.

Mr. MANN: I think generally because there is more activity, because the port of St. John's, although it has come under our jurisdiction recently, did not account for very much. It was rather an insignificant portion of the over-all increase.

Mr. BELL (*Saint John-Albert*): Do you agree that in the case of Saint John and, perhaps, Halifax, there has been a lessening of the general cargo as a

percentage of the total? In other words, the Saint John port is in a transformation stage—I know we have had discussions about this—in that although the figures show up fairly well of the cargo tonnage handled, the actual general cargo as a percentage of this is on the decrease?

Mr. MANN: I do not know whether I could put it quite that way. Certainly, the general cargo at Halifax and Saint John is not growing as fast as it is at other places. The bulk cargo looms rather large at Saint John because of the refinery shipments, and so on, so that to that extent I think I can concur with your remarks.

Mr. BELL (*Saint John-Albert*): How about coast-wise shipping with respect to these two ports? Is that on the increase?

Mr. MANN: Halifax has had a rather new input because the winter movement of Clarke Steamships, by way of the new sideloader, to Saint John is taking place from Halifax. This is traffic that was not significantly noticeable at Halifax before.

Mr. BELL (*Saint John-Albert*): For many years there has been criticism of the loss of activity both import and export-wise to American ports. I know that the National Harbours Board works on that. Do you see any significant change? Are you making any inroads in the different commodities that have traditionally gone through the American ports?

Mr. MANN: Again forgive me for I must talk from memory here. I think, in the early fifties, there was created the Canadian port committee which is still in existence and we had very much to do with its creation. To some extent, as the result of the activities of that committee, Canadian exporters have been made more conscious of the advantages of Canadian ports and we have had a decline, on the whole, of diversions to American ports. This situation requires continual watchfulness and this is precisely what we are doing.

Mr. BELL (*Saint John-Albert*): In so far as port promotion is concerned, there has been some criticism that in the competitive world of today, whereby different ports compete against each other, the larger American centres are able to put on a more forceful public relations campaign. Have you found that your new plans of promotion of the ports that are under your authority, this promotion to Europe and the United States and elsewhere, have been effective and you have been able to compete?

Mr. MANN: Yes, I think on the whole we have been. The Americans are rather great on this business of promotion and spend vast sums of money. It is rather significant to note that the largest spending American port—New York—which is very generous in its overseas representation and its cocktail parties put on at Claridge's, London, et cetera at tremendous expense has suffered an over-all general cargo loss in the past. This may be reversed now by way of the container movements, but promotion can be overdone quite often and is being overdone by some of the American ports. We, ourselves, do a fair bit of this. We have people out on the roads talking to shippers. We have had overseas visits. We co-operate very closely with the local groups in the various ports under our administration. For instance, in Saint John, as you know so well, there is the Saint John Port and Industrial Commission which has just had an overseas visit. This visit took place in the company of our own port

manager at Saint John who went over with them. The same thing was done at Halifax and we find the efforts of these local groups in co-operation with ourselves, very useful.

Mr. BELL (*Saint John-Albert*): The implication, then, is that a smaller port, by direct contact and co-operation, can do just as well as a large port which might have the money for the lavish parties and entertainment.

Mr. MANN: I should think so. It is almost impossible; it is almost like public relations; generally it is impossible to quantify the results.

Mr. BELL (*Saint John-Albert*): Another question in the same context, then, of importance, I think. There was a committee set up a while ago which the National Harbours Board had some connection with to deal with top wharfage and demurrage rates. I would like to know, first of all, how the increase that took place some months ago has affected operations, particularly in the east. I would like to know just what your policy is in this, if you are operating national ports, successfully, do you have to make these suggestions for wharfage increases and, particularly, in the light of this competition from the United States, what are Halifax and Saint John able to do in so far as the rate competition with Americans is concerned. I hope you get the whole picture I am driving at.

Mr. MANN: We did not really increase it. The latest change that we made in our wharfage tariffs could not really be described as an increase, as such. The idea in this was, and it was preceded by a rather lengthy discussion, to simplify a tariff which we had, I suppose, really inherited and carried on and which finally ended up, as far as I recall, at about 165 commodity descriptions. What we attempted to do—what we have done actually—is to simplify this 165 class tariff down to 22 classes which we feel is a step in the right direction at a time when you put I.B.M.s instead of clerks with quill pens. It is getting simply too expensive for our users to start working about little sub-classifications. In the course of this simplification, some commodities took an increase and other commodities took a decrease. In so far as we are concerned, the revenue of the National Harbours Board wharfage was not increased. I think we are taking a slight loss. I cannot give you the figure exactly but we are willing to take this for the sake of making life easier for our customers and for ourselves. This was the general idea.

In so far as the port charges are concerned, I think you have a situation in the east coast that is very much akin to the west coast. Analysis of American port charges will probably show very quickly that our rates in the east are lower than competitive American ports. So that on that score I think we come out fairly well. We watch, of course, the charges of the American competitive ports and we must do this. We have, so far, no reason to believe that port charges as such divert cargo from Canadian ports.

Mr. BELL (*Saint John-Albert*): Also, in other words, in the case of Saint John which is vulnerable in so far as loss of general cargo and transshipment are concerned, you would give every consideration to the competitive position of the commodities as against the rates in the United States. What I am trying to say is, bulk cargo which cannot really go anywhere else, in most cases, in Canada would go through the ports and that is one consideration. In the case of

the commodities that we might lose, of a general cargo nature, the rate is important and you do give consideration to these rates?

Mr. MANN: Yes, we certainly watch these and, of course, the inland factor, the railway rates become important too and the Canadian National and the Canadian Pacific must watch that situation, too.

Mr. BELL (*Saint John-Albert*): In so far as the future of Saint John is concerned, the other members have asked about Vancouver and Halifax, do you have any general information about the port. We are quite happy that the new transit shed for potatoes and the like is being used. It appears to be a very good investment and I am wondering, generally, what is going to take place and the way your thoughts are about the waterfront. I know there is some general improvement and the sheds look better but have you got any good news for the port of Saint John in the coming years?

Mr. MANN: I think so, Mr. Bell. For one, I think you will probably be happy to know that we are extending now pier one which is, I think, predominantly used by Furness Withy and where we found that the larger Manchester liners were not easily accommodated there, we are extending that to take care of that situation. We are also raising the apron on pier one. Eventually, this will allow us to extend the shed on pier one as well. We do hope, within the reasonable future, to do an extension to Pugsley North which will clean up that old ferry mess down in front of the rather new building which we are now occupying. In the long run, there is a rehabilitation in conjunction with the city of the Lower Cove area where the trestle is. This will be in the cards in the future. So, on the whole, there are some very interesting waterfront improvements that can be looked forward to.

Mr. BELL (*Saint John-Albert*): As a matter of general policy, does the National Harbours Board have any difficulty with assessing its responsibilities vis-à-vis the different ports in Canada. For example, there have been some new ports taken under your responsibility. I think of St. John's, Newfoundland, and Belledune. Is this going to be an increasing plan to bring, what I take the liberty of saying, smaller ports into competition with others. How do you assess the responsibility? For example, I can see the day when Belledune might divert certain types of traffic from Halifax and Saint John. In fact, it might even affect Halifax more than Saint John with certain types of cargo. What are your thoughts on that?

Mr. MANN: Belledune is, of course, chiefly conceived as a bulk port in conjunction with the north shore mining development around the area. Its competitive pull towards either Halifax or Saint John should not really be very great. The port of St. John's which also comes under our jurisdiction, does not significantly compete. It does not compete with cargo at all with Halifax and Saint John, so that there is no conflict there. What we do try to do, Mr. Bell, is to, if I may put it this way, Mr. Chairman, we try to assist the growth potential of each port and then build in anticipation of reasonable traffic expectations. We think this is a healthier situation than one where ports are allowed to develop without any regard for each other, and where you then end up with a mis-allocation of public resources. There is more than one case. I invite you to

look at San Francisco Bay area. The ports of Long Beach and Los Angeles are very good examples of two ports, side by side, which are all built to the same traffic and perhaps end up with some idle capacity. We are able to avoid this.

Mr. BELL (*Saint John-Albert*): With respect to the matter of your bridges in Montreal, I notice the continuing deficit shown there. I do not want to get into this whole story because we are grateful for the co-operation of different agencies. It looks as though we are finally going to have a bridge in Saint John. Is any of this money recoverable from the bridges. How will it fit into Expo? The Harbours Board itself has investment in Expo in some way. Is this a permanent structure. Will any of this be recoverable?

Mr. MANN: Expo bridge was not built by us. The bridges under our jurisdiction in Montreal are Champlain and Jacques Carter and these are not in the Expo venture.

Mr. BELL (*Saint John-Albert*): What is your investment in Expo; is it a building or an exhibit?

Mr. L. R. TALBOT (*Vice-Chairman, National Harbours Board*): No, I stated on Tuesday, Mr. Bell, that our expenditures in relation to Expo are expenditures on the rehabilitation of land. For example, the old city dump at Point St. Charles is land that belongs to the National Harbours Board. This will be used as the main parking area for Expo. We are rehabilitating that particular piece of land; also, another area called McKay's field. That is where some of the many Expo buildings will be set, such as their administration building, the CBC building, the Habitat Concept. This will all take place on land owned by the National Harbours Board. In order to make that land suitable to receive these structures, expenditures had to be made towards rehabilitating these land areas but we do not have any investments in buildings related to Expo 67.

Mr. BELL (*Saint John-Albert*): Will the land in the port revert back to you for your full use in different ways in the future. That is fine. Thank you very much for your detailed answers.

Mr. HOWE (*Wellington-Huron*): I have a supplementary question in connection with Expo. I was noticing under "Loans and Investments and Advances" in the National Harbours Board, L90, \$20,603,000 for Montreal, how much of that applies to services that are going to be set up to assist Expo? How much of that is going to be used in that way and how much for permanent installations?

Mr. MANN: Mr. Chairman, Mr. Talbot has already given evidence on this Expo matter when I was not here. Perhaps, he might just continue on this, with your permission.

Mr. TALBOT: All the Expo expenditures are included in Vote 103. In the \$20,603,000 related to Montreal harbour, none of this is related to Expo expenditures.

Mr. HOWE (*Wellington-Huron*): I see. The other day somebody indicated that there was an expenditure of so much for the control of the ice in Montreal harbour. There was an estimated amount of \$64,000 for hydro, if I remember correctly. Does some of this capital expenditure here include the gates that are required.

Mr. TALBOT: The ice control structure is being erected and built by the Department of Public Works. It will come under the administration of the

Department of Transport for operations. The National Harbours Board has no investment in this.

Mr. HOWE (*Wellington-Huron*): No item in these estimates for that in the Department of Transport. There is one harbour there I was just wondering about. Belledune. Where is Belledune harbour?

Mr. MANN: Belledune is on the north shore of New Brunswick, sir. It is between Bathurst and Dalhousie, roughly speaking and it is situated very close to the mining operations in that area.

Mr. HOWE (*Wellington-Huron*): I see. It has been in operation for many years?

Mr. MANN: No; Belledune will be a new harbour.

Mr. HOWE (*Wellington-Huron*): A new harbour; on account of the mining development?

Mr. MANN: That is correct.

Mr. HOWE (*Wellington-Huron*): What particular type of mine?

Mr. MANN: Base metals, chiefly.

Mr. HOWE (*Wellington-Huron*): Are there railroad extensions being put in there to take care of this?

Mr. MANN: Yes. This is in Canadian National territory and, as far as we know, Canadian National will build the necessary spur extensions to serve the harbour, from their main line which is very close by.

Mr. HOWE (*Wellington-Huron*): The main line is quite close by so that they will not have to come before this Committee to get permission to build a rail line extension. We were always interested in unforeseen and miscellaneous expenditures. What do those involve? Would it be contract, where a contract has been changed and a little extra has to be put into certain contracts?

Mr. MANN: No, not so much that, sir. For instance, again, we are an operating agency and there are cases that arise that you cannot foresee such as the case of the motor vessel *Granville* in Vancouver harbour which it was thought that the jetty would move out of its way, and found to its dismay that it did not and we found ourselves required to repair a jetty which was partially taken down, along with the grain galleries, so, we like to have an item in there which allows us to pay for some of these contingencies.

Mr. HOWE (*Wellington-Huron*): Do you not carry insurance?

Mr. MANN: We are self-insured.

Mr. HOWE (*Wellington-Huron*): I see. The government does not carry insurance; you pay for these things yourselves.

Mr. MANN: In this case we recovered, by the way; in the particular case I mentioned, we recovered from the vessel.

Mr. HOWE (*Wellington-Huron*): Mr. Bell was asking some questions about the Jacques Cartier bridge. Does the National Harbours Board operate bridges in many parts of Canada?

Mr. MANN: No; we operate bridges only in Montreal.

Mr. HOWE (*Wellington-Huron*): Just in Montreal.

Mr. MANN: That is correct.

Mr. HOWE (*Wellington-Huron*): Has there ever been any consideration of making arrangements with the province or the municipality to turn these over to the people who do look after them, under whom highways come in an ordinary way? Has this been considered by the National Harbours Board?

Mr. MANN: Yes, indeed it has and there have been negotiations with the province of Quebec. These negotiations, I suppose one could say, have not yet been concluded.

Mr. DEACHMAN: The thing that concerns me is that the same thing is arising in Vancouver in relation to a proposed second crossing of the harbour there. The proposal is that part of the funds be found from the National Harbours Board. I take the view, right or wrong, that the National Harbours Board ought to look after harbours, and federal road building programs and bridges which are really not related to harbours ought to be put under the trans-Canada program or some other program. I think this would be better, relative to other communities which are harbour communities and which also have bridging problems, and so on. I just wonder if Mr. Mann can tell us whether or not he favours, as a matter of public policy, including bridges under National Harbours Board which are really not wholly related to the business of harbours at all.

Mr. MANN: The most useful contribution I can make to that question is to say very definitely that this is a matter for government policy and I think, until such time as government policy is clearly known, I would prefer to hold back on the answer to that, with your permission.

The VICE-CHAIRMAN: Just a minute, Mr. Deachman. I think Mr. Howe had the floor and you asked a supplementary question.

Mr. HOWE (*Wellington-Huron*): Mr. Chairman, since they took the tolls off the Jacques Cartier bridge, you have a deficit there?

Mr. MANN: That is correct.

Mr. HOWE (*Wellington-Huron*): It did show a profit for quite a number of years?

Mr. MANN: Yes, it was beginning to show a profit.

Mr. HOWE (*Wellington-Huron*): Beginning to show, after the examination took place, under the former government; we finally got that thing straightened out.

Mr. HORNER (*Acadia*): Does the National Harbours Board have anything to do with the port at Victoria?

Mr. MANN: No.

Mr. HORNER (*Acadia*): That is private.

Mr. MANN: No, that is a public harbour under the Department of Transport.

Mr. HORNER (*Acadia*): I will not ask any questions concerning it particularly. One item here though that I wonder about: "Less amount to be expended from the replacement of other funds \$5 million". What do you mean by that particular statement?

Mr. MANN: We have replacement funds we have set aside and from which we can and do finance some of our—

Mr. HORNER (*Acadia*): In other words, you have a nest egg somewhere, that you are drawing money from.

Mr. MANN: We prefer, Mr. Horner, to call it a relief to the public treasury because we are able to set this aside from revenues gained from harbour usage. To the extent that we have this replacement fund, we do not have to come and ask Parliament for money.

Mr. HORNER (*Acadia*): I see. How big a fund is this?

Mr. MANN: It varies from harbour to harbour. Under our act, perhaps I should put this in very quickly for explanation, we are not allowed to take moneys from one harbour and use it in another harbour so that moneys earned in the port of Vancouver, for instance, or in the port of Saint John, must be spent there and we do build up replacements from which we can draw for renewal of facilities.

Mr. HORNER (*Acadia*): That is fine.

The VICE-CHAIRMAN: Can we carry Item 100?

Item agreed to.

Thank you very much Mr. Mann.

Now we will go on to Item No. 110 and I will call on Dr. Ernest Weeks.

110. Administration and Operation\$1,388,000.

Mr. HORNER (*Acadia*): Mr. Chairman, I wonder if I could ask when you are going to adjourn? Is it at twelve o'clock or one o'clock? What are your plans?

Mr. HOWE (*Wellington-Huron*): I think we should adjourn at twelve o'clock.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, I do not think we will be very long with the Atlantic Development Board. I understand it has appeared in the Senate and it was more the idea of the maritime members of Parliament that we establish the idea of the board coming to some committee with a general report each year. I do not know about Mr. MacEwan but, as far as I am concerned, I just wanted to ask a couple of general questions, and probably it would suffice for this year. We should not be much later than twelve. This, I take it Mr. Chairman, would finish the Department of Transport responsibilities.

The VICE-CHAIRMAN: If the Committee agrees, I think we can finish this before noon.

Mr. BELL (*Saint John-Albert*): In that connection, may I ask Dr. Weeks, so that there will not be too much duplication—I understand you were appearing in the other place this morning. I was wondering in what respect and what particular items were covered.

Mr. ERNEST WEEKS (*Executive Director, Atlantic Development Board*): Mr. Chairman, gentlemen, I think I should explain that this morning the members of the Senate finance committee were interested in getting an over-all picture of what we were doing. I explained the legislation under which we operated,

the fact that we divide our functions into programming, current projects and so on, into the planning side and into what I would call the co-ordination and special tasks side. You are aware, of course, of our Saint John bridge which was an illustration of that. I explained the basic principles of our operation, how we went along about our business, and also, on the programming side, the fields that we were into, the fact that we had concentrated so far on the infrastructure, particularly thinking here of power, transportation, water, industrial parks and basic research. I explained the activities in these particular fields and the point that ultimately, of course, we would hope to be able to fit our current projects into the framework of our over-all economic guidelines which we are working out with relevant federal agencies and with each of the provinces. They have had that background and this was amplified with, of course, enlargements. I enlarged the points behind certain questions which were raised by the members of the committee.

Mr. BELL (*Saint John-Albert*): That is good information and I imagine that this report will be available to all members. It was merely the intention of the maritime members of parliament that we should start to call the Atlantic Development Board on an annual basis, not so much to get into the details of projects because that is all contained in your report which you are required to make. It was, more or less, the idea of interesting everybody from a national point of view in this project which is so important to our future. I have just one or two questions of a general nature. Can I establish, first of all, it is a requirement under the act that you file an annual report?

Mr. WEEKS: Yes, under the act we are to table the report within ninety days after the conclusion of the fiscal year and, hence, our next report is to be tabled by June 30.

Mr. BELL (*Saint John-Albert*): Can I ask a question about this matter of planning? There have been some statements in the press about some new thoughts that the board has. I am not speaking of a policy nature, but just what is actually under way in over-all planning. I think this is very important, where there are so many small projects that are being considered. What do you have in mind? Have you a planning team? Are you co-operating with other boards and agencies?

Mr. WEEKS: Yes. Let me deal with this in two aspects: One, with respect to the projects which we are doing currently, I think I should emphasize we consider that these are likely to fit in with a long term plan although the priorities might have been different, perhaps if you had this plan beforehand. My second point on the plan itself is that we have a division set up to carry this out. Mr. Levin over here is director of this division. Are we working with other government agencies? Yes, the act indicates that we must work in collaboration with the Economic Council of Canada. This is being done to insure that the analyses are bearing in mind the national picture and, also, there is close collaboration between Mr. Levin and his people and the staff of the Economic Council.

As far as other agencies of the federal government are concerned, I should emphasize here that it is not our intention to do somebody else's work; that in any studies that are being carried on, we want to have, first of all, the advice of the relevant federal agencies. We want to find out if they could do the work, if

they cannot do the work, and if, as a result, we have to get consultants, that they work with us in connection with the planning of this work and the selection and operation of consulting services. Also, we regard as fundamental, in anything like this, that you work closely with the provinces because if you draw up—the idea incidentally of this economic plan, which is called for under the act, is to provide really guidelines here, and the idea is guidelines are not going to be very much good practically unless these guidelines are generally acceptable in the provinces as well as, perhaps, from our own point of view. So, there is close and continuing collaboration with all the relevant provincial agencies in that direction.

Mr. BELL (*Saint John-Albert*): In other words, initially there is a separation between the particular projects that we got into when the act was first set up and then the long term planning that moved in.

Mr. WEEKS: I would hope, Mr. Bell, that as this plan approaches—incidentally, we have not yet been operating three years since the amended act was passed and initially we had to devote, we felt, a great deal of attention to getting under way certain things which appeared to be obvious things we should get into; like the power, or assistance on the highway, certain industrial parks and so on. We would hope that as we proceed we will be getting into a situation where the long-term plan and our projects get together. We are considering our recommendations in the light of this framework; guidelines for us and we hope that this plan will provide guidelines of value to the provinces and of value to other federal agencies as well as to organizations.

Mr. BELL (*Saint John-Albert*): In other words, at some time a plan in the nature of a report will be available, I suppose.

Mr. WEEKS: It will probably be, I would think, another year.

Mr. LEVIN (*Director, Planning, Atlantic Development Board*): I hope to have an interim report by that time.

Mr. WEEKS: We also, of course, recognize that no plan or guidelines makes any sense—I prefer to call them guidelines—a set of guidelines would make sense if you once froze it; if you said, “There it is.” Obviously, once you have reached your first approximation in this, this must be a rolling thing that is constantly being adjusted and kept up to date in the light of new circumstances.

Mr. BELL (*Saint John-Albert*): What follow up do you have on particular surveys or investigations that have been conducted? For example, it was well known a thorough investigation was conducted into the future of the ports of Saint John and Halifax vis-à-vis the St. Lawrence and certain general recommendations were made. We, naturally, do not expect that something is going to happen tomorrow about a problem like this. What happens? Is this shelved?

Mr. WEEKS: No. You see we bear in mind the point that the reports on the impact of shipping in the St. Lawrence on the Saint John and Halifax, indicated the need for, among other things, improving the local base as well as other things of these ports their immediate hinterland. In line with this we have, as you know, recently had approval for assistance to a major industrial park in Saint John. We have equally provided assistance for a major industrial park in the Halifax area to encourage local industries that will be using the port. These are steps that we have taken in this regard.

Incidentally, too, I might mention in this particular case—to go back again to Saint John—you will remember that it was the Board that recommended that action be taken by the relevant federal agencies on the Saint John bridge which we again regarded as a fundamental factor in improving Saint John as a base for industry utilizing the port. Equally in Halifax, we were naturally concerned about the possibilities of improvements in that port which we have not had to deal with but which the National Harbours Board is taking over in connection with the elevator and, I believe, this has been followed up with a new power plant.

MR. BELL (*Saint John-Albert*): I suppose there is a differentiation, too, between projects that are of a direct financial nature, in the sense that a grant is made and it is a round sum of money and there may or may not be an accounting of this to the board. There are also other projects that are not directly possible to attach any amount of money to. These would be of a technical nature.

MR. WEEKS: I think I should emphasize that we never make grants, shall we say, in the sense that there is the block of money. The point is: now, let us take two outstanding examples of what might be called grants, if you like, three examples: Macnaquac, Bay d'Espoir in Newfoundland and the Trenton plant in Nova Scotia, these three power plants. Here is a case where we set aside certain funds which are paid on a progress basis. We make payments in line with progress in construction, that is, there has to be a certified invoice before we make the payments. On your point of projects, there are other projects, incidentally, where we have the construction done ourselves; that is the Department of Public Works acts as our agent; it may be certain water lines where the construction is carried out under the Department of Public Works and then we turn over the finished facility to the province.

Now, to your other point, this question of studies which are not tied in with direct sums of money, well, there is this transportation study which is being financed by the Department of Transport, but where our people are part of the directing body. This will be a thing which will, perhaps, take another year. But this is a thing where, presumably, important recommendations may come out which may not involve any money from the Board at all and in a lot of these studies, there may be studies from the planning side too that do not necessarily involve us in expenditures but we would hope might lead others to make the expenditures.

MR. BELL (*Saint John-Albert*): I am pleased to see that, in particular there are these various projects that have come up quickly but there is this long term planning. I think it is of greater—

MR. WEEKS: We want to marry the projects to this long term plan ultimately but I think you would agree that pending the development of a plan like this, we had to act.

We did not wish to be a board that waited for two or three years for a framework within which to act. We decided we should act on lines where we could not be too far wrong.

Mr. BELL (*Saint John-Albert*): I am not suggesting, Dr. Weeks, that there should be less emphasis on this type of program but I am pleased to see there is more emphasis on the long-term aspect of it.

Mr. Chairman, I have one or two other questions but I would like to interest some of the other members. Well, I know Mr. MacEwan from Nova Scotia will probably ask questions but certainly it would be most welcome if any of the members who are not from the maritimes would indicate their interest by asking questions in this regard. Thank you very much.

Mr. MACEWAN: I wonder if Dr. Weeks could tell us the balance in the Atlantic Development Fund?

Mr. WEEKS: Let me put this into two or three points to get the proper perspective here. On a \$100 million fund, we have committed, in the sense of approval of projects, something over \$89 million. In addition to that, there is a sum of \$5.5 million which remains of the \$20 million originally earmarked for industrial development in Nova Scotia. There is \$5.5 million that is remaining here, so that if you add on that amount of money which is committed for Nova Scotia, we have a total of \$95 million that is committed, which means, that as far as we are concerned on margin, we are into the \$5 million effective margin and there are two things here that we must allow for: One, that there are almost bound to be overruns on the costs of projects already committed. It would be most unusual if the costs were exactly as estimated, given general trends in construction cost; and the other point is, of course, that our room for manoeuvre, as far as proposing new projects are concerned, is practically nil.

Mr. MACEWAN: Therefore new additional funds are required Dr. Weeks and—

Mr. WEEKS: Let me put it in this way: If we are to recommend and undertake further projects for expansion of the infrastructure and other aspects of the Atlantic region, we would need to have more money.

Mr. MACEWAN: The Minister said, in the House not long ago—I believe I am paraphrasing it correctly—that it would require amendements to the act in order to bring further money in.

Mr. WEEKS: I believe that the Speech from the Throne at the opening of the session indicated that legislation regarding amendements to the Atlantic Development Board Act would be brought forward. I am not in a position to say, of course, what would be contained in the proposed amendments.

Mr. BELL (*Saint John-Albert*): Would you be in a position to say when, the way things are going?

Mr. MACEWAN: Just going to my own constituency for a moment or two, the answer to a question in the House was, I believe, that \$400,000 had been given for a general purpose building in Stellarton Industrial Park. Is that right?

Mr. WEEKS: It costs \$300,000 for the water line for the industrial park. You have \$700,000 there.

Mr. MACEWAN: Until Clairtone Sound Corporation moved into their new building, the official opening will be next week, they used this general purpose building.

Mr. WEEKS: That is right.

Mr. MACEWAN: Has the Atlantic Development Board given anything towards the construction of the new building?

Mr. WEEKS: No. As a matter of fact, we take the view that as far as industrial parks and general purpose buildings are concerned, our job is mainly in, what I call, the infrastructure field, that is we are providing a facility that would perform the service of attracting an industry initially to give them, pending the development of their own plant, a spot where they could start right away. We would hope, of course, that this general purpose building would be used by another industry coming in under the same system. But we make no contributions whatever to the new plant which is being put up by Clairtone. I assume that this will have come under the area development agency.

Mr. MACEWAN: Yes, and Industrial Estates, I think.

Mr. WEEKS: Yes. That is right. I may say, in this connection, that we have very close relationships with Industrial Estates and, as you know, the President of Industrial Estates Limited, Mr. Frank Sobey is also a member of our board.

Mr. MACEWAN: What was the total cost of the general purpose building?

Mr. WEEKS: I believe it was considerably more than the \$400,000. I think it was let go at \$560,000. The principal reason for that was because they had to construct it fast in order to accommodate the industry. They had to pay premiums.

Mr. MACEWAN: I would like to say to you, Mr. Chairman, and Dr. Weeks, I have been in that building and I think the money's worth is there. I realize Clairtone was moving in quickly and the facilities were needed. It is a good building, from the latest reports. Mr. Sobey would know more about this. I hope there will be another industry move in that building before long.

Mr. WEEKS: There is just one point here that I think I should mention. As far as the board is concerned, we feel that we must be reasonably flexible and for that reason, when this question came up, of this building and rapid action, to set aside funds, this was done quickly. We are great believers in the idea of taking a flexible approach here. In some cases, what attracts an industry is to have a building like that available. In other cases, serviced land is what is more important.

Mr. MACEWAN: I note here a statutory amount of \$10 million, for the federal share of costs of a trunk highway program. What were the total amounts for each of the maritime provinces and Newfoundland?

Mr. WEEKS: As you are aware already, of course, under the fund itself we set aside, originally, \$10 million which was on the basis of—this was just, if you like, an opener in this field where we had 3,3,3,1 as the proportions. That is \$3 million for each of the three larger Atlantic provinces and \$1 million for Prince Edward Island. In what we call our second highway program which came under this statutory allocation of \$30 million which is not part of the fund, the proportions were the same; it was on the 9, 9, 9, 3 distributions.

Mr. MACEWAN: How much of that has been expended actually?

Mr. WEEKS: The expenditures to date, I believe, are something like only about \$2 million because it is a three year program. The reason for its not being more is the fact that we had our original programs of the \$10 million and, also, the fact that the provinces were pushing pretty hard to complete their Trans-Canada highway commitments and hence they were perhaps carrying this program over a little longer than we had originally expected. Therefore, the concentration has been on engineering and route selection and so on so far. We expect this will go up very sharply this next year.

Mr. MACEWAN: There is just one further question, Mr. Chairman. You said there was \$5 million remaining in the fund from the \$20 million which had been allocated for industry in Nova Scotia.

Mr. WEEKS: I might say that \$2 million of that is tentatively committed. I cannot say what to.

Mr. MACEWAN: Is that directly to individual industries or to the province of Nova Scotia or to the government?

Mr. WEEKS: The point with the \$5 million is that as industrial developments come up, you say perhaps it happens to be industrial parks and so on, as new ones come up in Nova Scotia, of course, there is a subtraction from that \$5 million. The point is, that that \$5 million cannot be used by other provinces.

Mr. SOUTHAM: I would like to go along with the remarks made by my friend, Mr. Bell, in suggesting that it is very beneficial to our Committee to have Dr. Weeks and members of the Atlantic Development Board before the Transport Committee this morning. I also would like to take advantage of his suggestion that possibly other people, other than the maritimers should make a few comments or ask a few questions. I come from central Canada and, coming from an area that has often been referred to in the years gone by as one of the less economic areas. I am thinking particularly of the trying period of the hungry thirties. I as a western member, am very interested in the setting up of this Atlantic Development Board and what it can do to help the maritime provinces. Since I come from an agricultural area, I just wonder whether you could make any comments as to how you enter into the development of agriculture in the maritimes. I am thinking particularly of a situation that I am familiar with in regard to Newfoundland. This was a cattle ranch syndicate headed, I think, by a man by the name of Mr. Harold Lees who was invited to come down to Newfoundland to assist in the development of agriculture, particularly in expanding the cattle ranch business. Have you any experience with this particular situation?

Mr. WEEKS: Yes, I might comment on this that we had with the Newfoundland government, when this matter of this ranch came up, worked out a system whereby we would collaborate with the government in experimental work on bogland reclamation in the Burin Peninsula. We were not, ourselves, of course, tied in with the ranch in any sense. Our interest in this case was to see what could be done to assist improved methods of bogland reclamation with a view to raising hay locally. One of the major difficulties of this ranching operation which, I may say, is facing serious problems at the moment, was the point that while you could graze the cattle all right in the spring, summer and early fall over wide areas, for the winter you had to have something like a ton

of hay per head brought in. Bringing in a ton of hay per head, in the Burin peninsula was mighty expensive business. You could pick up the hay for, perhaps, anything from \$15 to \$20 a ton in the Atlantic provinces or in the maritimes, for example, Nova Scotia or New Brunswick but by the time you had that delivered in the Marystown area of the Burin peninsula, you were hitting prices of nearly \$40 because of the very heavy transportation costs. This obviously meant that if an operation like this were to be successful, they had to have their hay grown locally.

So, we have gone into certain experimental work on this and it looks now as if hay can be grown down there quite satisfactorily but, in the meantime, the ranch itself has got into serious difficulties owing to problems of taking adequate care of the cattle, because of the problems of the cattle roaming off and, after they roamed off they never came back again and were not found again. I would say that there has got to be very serious reorganization of the whole development if it is to succeed. The great part of this turns on the question of managing a ranch of this type in Newfoundland conditions.

Mr. SOUTHAM: Thank you very much, Dr. Weeks. I am very interested in it because I know one of the personnel of this syndicate personally and at the same time I think he is a dedicated person. He is very interested in making a success of this. Up until now you people have only been interested in this, as you say, as an experimentation with regard to developing hay lines in the bog. Has there been a direct representation to the Atlantic Development Board for any financial assistance to help see that this syndicate gets out of their difficulties? I think the intent is ideal and I think it would serve a great purpose for the economic development of agriculture.

Mr. WEEKS: We have not had a proposal before the board that we go into direct financing, I think for one big reason. We would only entertain proposals here that would come through the Newfoundland government because we do not, as a general principle, get into the field of direct assistance in the financing of a private company.

Mr. SOUTHAM: My question would be more like this. Are you co-operating with the Newfoundland government with regard to getting this project back on an economic basis?

Mr. WEEKS: I had talks, I may say, two weeks ago in Newfoundland with the minister of resources, Mr. W. J. Keough, and Mr. Keough was going to put forward certain proposals to us regarding the best way to handle bogland reclamation in this area. The problem of the company itself is not in the hands of—I believe the banks are involved in this at the moment and the situation is a rather complex one. I think we have to leave this matter in the hands of the Newfoundland government and the company, at the moment. We would only, I think, be in a position to look at this more from the question of services that are relevant to an operation like this, rather than for us to become involved with a private company as such.

Mr. SOUTHAM: I am very interested to hear your remarks regarding the managerial aspects of it and the cattle straying off. I believe this has been one of the problems that have developed due to the wide area involved which could not be fenced in, and certain cattle wandered off. Rustling is actually taking

place. Evidence has been found of this. I think there is a matter of certain law protection—

Mr. WEEKS: I do not know whether one calls it rustling or whether it is that the cattle simply disappear, but the point is they are not around.

Mr. SOUTHAM: I have information, Mr. Chairman, that they have actually had instances where they have found these cattle have wandered off and people have rustled them and butchered them and disposed of them. This has been one of the reasons of herd reduction plus climatic conditions. Of course, you pointed out, very clearly, the aspects of the high cost of feed and so on. I think, myself, that it is a very worthy project and I am just hoping that there is some optimism developing to keep this on the rails, as it were.

Mr. WEEKS: I may say that the reason why we had proposed to the board that we do some work on this question of developing hay from the bogland was that we felt, given the wide areas of what you might call organic soil, bogland is, perhaps, a less polite word for it, in large sections of Newfoundland, that this was a thing that we really should know more about; if, for instance, agriculture is to develop on any large scale in Newfoundland obviously something must be done to utilize bogland areas.

Mr. SOUTHAM: The individual involved is from Saskatchewan and he has transported some very high grade, quality cattle down there. It would be, I think, an economic loss to the Maritimes and in particular Newfoundland, and to the syndicate themselves if the whole plan is not co-ordinated and put back on the rails again. Thank you, Mr. Chairman.

Mr. HORNER (*Acadia*): I noticed from your annual report, 1964-1965, that you made a study. Consultants were called in to examine the feasibility of an increase in the amount of grain traffic passing through Halifax and Saint John. This report was to be submitted in the summer of 1965. Has that report been submitted?

Mr. WEEKS: Yes, we have had that report. The port commissions of both Saint John and Halifax are aware of it. We have not issued it generally. One of the points in this report was, of course, an angle of the possibility of greater movement of grain in Halifax. As you know, the National Harbours Board has taken certain action already regarding an expansion of elevator facilities, and I believe a flour mill is going in. The question, as far as Saint John is concerned, turns more on problems of cost in Saint John. If one were to expand grain handling activities, particularly in the domestic grain field, one is up against certain loading problems which are costly because of the heavy tide element.

Mr. HORNER (*Acadia*): Halifax was concerned more with flour and export grain?

Mr. WEEKS: And also with domestic feed.

Mr. HORNER (*Acadia*): With domestic feed too.

Mr. WEEKS: Then, you see, there is another aspect that has to be allowed for here and that is the question of the economics of moving grain from the lakehead to Halifax versus moving it then from Halifax to specific points like the Annapolis valley by rail versus the cost of moving feed grain in by rail direct to the Annapolis valley. There is a matter here of certain breaking points.

Mr. HORNER (*Acadia*): It has been my belief and I think Mr. McNamara, before the Agriculture Committee, suggested also that he felt there should be more storage space built in the maritimes and in Quebec for domestic grain, feed grain particularly. I just wondered if this study that you carried out bore this out.

Mr. WEEKS: Again, you might say, partly, yes, in this sense though that a great deal depends upon how fast your domestic agriculture grows here because once you start on this domestic feed grain issue, you are really getting right back to your livestock picture. When you are getting back to your livestock picture, you get back to a very fundamental point in the agricultural picture in the Atlantic region and that is that, as you probably know, well over half of the red meat consumed in the Atlantic region is imported. This would suggest that there should be quite a potential here for developing a much larger livestock industry. This, again, turns up other economic factors. There is not only the question of feed costs; there is the question of sheltering the cattle during the winter; there is the question of the size of operation which is most economical; there is the question of the extent to which you can tie in beef production with dairy production and the economics of a beef operation tied in with a typical mixed farm.

This is a field which, I think, is going to have to be gone into, this whole field of beef production in the Atlantic region. This is going to have to be gone into a very great deal and I am sure this is a point which Mr. Levin, in his planning operation, will be devoting quite a lot of attention to. That is the determining element of how much feed grain you are going to be involved in and, correspondingly, with the amount of storage space needed for this feed grain.

Mr. HORNER (*Acadia*): With regard to this grain study, it has been generally thought, in western Canada, that for the feed grain question to be solved or answered adequately here in eastern Canada and in the maritimes, there should be a better distribution system of it. In the west we have what might be said to be a reasonably good gathering system for the grain, but we have always felt—and when I say “we” I mean western Canada generally—that there is a very poor distribution system for feed grain here in the east and in the maritimes. Was this question of a distribution network looked at, at all, in this study?

Mr. WEEKS: Perhaps I should ask one of my colleagues to comment. I do not have the details for that at my fingertips.

Mr. F. J. DOUCET (*Director, Program Section, Atlantic Development Board*): I do not either, but I remember that there were two points: One, on the cost of bringing feed grain via the seaway to the ports and then distributing it. The other one, of course, was direct by rail. On the basis of the rates as they were in the past, on the rail, it appeared to be slightly advantageous, though not very advantageous, to bring the feed grain and store it in Halifax particularly. The railways, of course, have been changing considerably, as you know, in the way in which they handle material. This is where the distribution question came in and by some work that they had been doing, they found that by restructuring the distribution points and the methods of distribution, using different equipment that was now in use, they could match the cost of bringing

in by the all-water route. In point of fact, when the exercise is completed, you could get better service by direct shipment because you could go right to the point where it was needed and at no greater cost although I would not want to say at less cost. This, I think, was the general conclusion.

Mr. WEEKS: I think there was a point here too that when that grain report was done, the railway action regarding rates on feed grain had not yet been announced.

Mr. HORNER (*Acadia*): They have just recently lowered the rate.

Mr. WEEKS: That presents a new set of circumstances.

Mr. HORNER (*Acadia*): A new set of circumstances. One further question; this report is to be submitted during the early summer. Who was it submitted to?

Mr. WEEKS: To us; to the Atlantic Development Board.

Mr. HORNER (*Acadia*): To you people? You have not made this report public?

Mr. WEEKS: We have not made it public and I am not so sure that it would be a good idea now, particularly, since the bases on which it was originally done have been altered.

Mr. HORNER (*Acadia*): Would the Wheat Board be given a copy of it?

Mr. DOUCET: I believe the Wheat Board has a copy of it.

Mr. WEEKS: If they have not got a copy of it, we will make sure they do have it.

Mr. HORNER (*Acadia*): I am just wondering.

Mr. HOWE (*Wellington-Huron*): I have a couple of short questions, Mr. Chairman. One of them is in connection with the grant of \$10 million for a trunk highway, or the federal share of cost of a trunk highway program for the province of Newfoundland. Probably you did answer this question to Mr. MacEwan, but what is the percentage formula with regard to the provinces?

Mr. WEEKS: There are two programs here. You are referring particularly to the original \$10 million as against the \$30 million?

Mr. HOWE (*Wellington-Huron*): Yes.

Mr. WEEKS: On the original \$10 million, this varied a little. In the case of both Nova Scotia and Newfoundland, the sharing was fifty-fifty. As far as Prince Edward Island and New Brunswick are concerned, it was 75 Atlantic Development Board, 25 the province, for the same amount of money, of course.

Mr. HOWE (*Wellington-Huron*): The federal was 75 and the province was 25.

Mr. WEEKS: But in each case, you still had only the \$3 million being put in. Regarding the three, three, three, one, one million in Prince Edward Island and three million in each of the other provinces.

Now, as far as the second program is concerned, which is the statutory vote, that is all on a fifty-fifty basis.

Mr. HOWE (*Wellington-Huron*): None of the municipalities, counties or main cities or towns are participating in this at all?

Mr. WEEKS: Straight Atlantic Development Board provincial.

Mr. HOWE (*Wellington-Huron*): It is additional to the Trans-Canada highway?

Mr. WEEKS: Yes, it is additional to the Trans-Canada highway and it is additional to roads to resources. It is quite separate from either of these programs.

Mr. HOWE (*Wellington-Huron*): I have one other question in connection with this. I am rather interested in the question Mr. Southam brought up about agriculture in Newfoundland and the bog situation over there. In Newfoundland have they given consideration to alternate crops in these bogs, something like they have in the Holland Marsh and around Ottawa here.

Mr. WEEKS: Not to any particular extent yet because I believe I am correct in saying, Mr. Russell, that in all of Newfoundland there are only about 800 or 900 acres so far that have really been improved, and in fairly small blocks. It seems to me that this is a field which should be investigated a great deal.

Mr. HOWE (*Wellington-Huron*): That is what I was thinking, potatoes and vegetables. Of course, the population of Newfoundland is not too large so that they would have a market like the Holland Marsh has.

Mr. WEEKS: No. When you consider that the whole province has a population of 500,000 which is spread over the province with, of course, pretty fair concentration in the St. John's-Avalon peninsula area.

Mr. HOWE (*Wellington-Huron*): Does Newfoundland, at the present time, provide enough fresh vegetables for themselves?

Mr. WEEKS: No.

Mr. HOWE (*Wellington-Huron*): So that there would be a market there.

Mr. WEEKS: Yes. Incidentally, I will turn to my colleague, Mr. Russell, who is a Newfoundlander. Coming, as I do, from a province where the agriculture is somewhat different, namely Prince Edward Island, I have to watch out that I do not get out of focus here. In Newfoundland, it is not only a case of a deficiency, as far as vegetables are concerned, but milk, for instance, is a thing in which they are deficient although in recent years the province has, I believe, become self-sufficient in eggs.

Mr. RUSSELL: They are sending eggs out of the island.

Mr. WEEKS: We have not yet had, in Prince Edward Island, any eggs from Newfoundland. This will be a sad day.

Mr. HOWE (*Wellington-Huron*): You just have potatoes in Prince Edward Island.

The CHAIRMAN: Mr. MacEwan has a question to put.

Mr. MacEwan: I forgot to ask about the grant for the Trenton thermal power plant. What is the latest word from the Nova Scotia Power Commission? Are they going ahead?

Mr. WEEKS: Yes, You mean what is the position regarding (a) the construction, (b) our share? As you know, the Nova Scotia Power Commission is going ahead with a \$24 million, 150,000 kilowatts, which is the same as 150 megawatts. This is costing \$24 million, as I mentioned. We are putting in \$12 million. I understand that the power commission has already received tenders for certain large types of equipment for this plant.

Mr. MACEWAN: This amount of \$12 million from Atlantic Development Board has been committed for that project?

Mr. WEEKS: Yes, that is right. If I may just take 30 seconds, Mr. Chairman, to indicate that we have, as you know, put money into Macnaquac, Bay d'Espoir and into a cable committed for a cable connection over the causeway P.E.I. We have felt that this assistance in Nova Scotia rounds out this phase of our contribution to the power infrastructure picture of the Atlantic region. The point of our \$12 million in the Trenton operation is that it enables the Nova Scotia Power Commission to go ahead with a 150 megawatt operation instead of a 100 megawatt operation, and hence get the long term advantages of scale. It enables them to obtain the remainder of their financing, probably on a more favourable basis than would otherwise be the case. We feel this will give the province a chance to offer industry more favourable terms, as far as power is concerned, than would have been possible had we not participated. As we indicated this morning to the Senate Finance Committee, we feel that a very important element in the future economic growth of the whole Atlantic region is adequate supplies of power at reasonable prices.

Mr. MACEWAN: I appreciate that, Dr. Weeks. It is in my constituency and it will help the coal mines and so forth. That is all, sir.

Mr. DEACHMAN: I have one question here and that is to ask if the Atlantic Development Board is involved in the heavy water project in the maritimes or was that taken up—

Mr. WEEKS: As far as the heavy water project at Glace Bay was concerned, we used our good services. We had no money in it; we used our good services to assist the Nova Scotia government and various agencies of the Nova Scotia government in the development and presentation of their case, if we may put it like that, to the federal government.

The VICE-CHAIRMAN: Shall we carry Item No. 110?

Mr. SOUTHAM: As you know, I have been very interested in this development of heavy water, particularly the proposed second heavy water plant. I was a little concerned to hear that the Glace Bay project has been slowed down as far as getting it open on schedule is concerned. Is there any particular difficulty here or is it just a matter of buying a little extra time?

Mr. WEEKS: This, I am afraid, is a question on which I cannot make any comment. We are not directly involved and I know, only like you, what I read in the newspapers.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, I have one final question I would like to ask, but before I do, I would like to say how pleased I am to hear the western members asking questions about agriculture. I think this is very important, as Dr. Weeks and his associates have pointed out, to the maritimes.

It always seems strange to me that, at one time, we imported 75 per cent of our agricultural products into the maritimes and here is a region that has basically quite an agricultural base and opportunity there. I know, in my younger days, I even made a couple of speeches on agriculture and, for the life of me, I could never see why the marshland area in Albert county and in through Amherst could not sustain some kind of a beef raising industry. It seems that it just has not been possible. Perhaps the board can go ahead now.

We all have our favourite projects. I could keep the Committee all day long on some of mine. I appreciate the over-all problems, power, transportation, pollution and the like and I know that, in my own case, I have been interested in the port, industrial growth and tourism in the Saint John area. One final question comes to my mind and I appreciate the act is very general and there are no guidelines, if I can use the word again, set down in it about the procedure that may cause projects to be referred to the board. I appeared once, as Dr. Weeks knows, before the board and was given a very good reception and I would imagine that if any of the politicians have anything to say, the board does not mind hearing us. What do you prefer, now that you have been in operation nearly three years, in the way of a brief that an organization, a body, a politician, or a local government might present to you in order, to start the ball rolling on a type of activity. I have one particular project in mind. It has been of interest to many of us in southern New Brunswick and that is the Fundy trail. It is tied in with transportation, tourism, the whole business. It would start at St. Stephen and go around the Bay of Fundy almost to Yarmouth. We are having a meeting at the end of June in Nova Scotia on it. It is being headed up by local governments and the like. My part in it is very insignificant for a lot of reasons, but I know that one of the big matters we will discuss there is how we could best present our story to the board so that you would interest yourselves in it, certainly survey it and look at the technical aspect and, we hope, make recommendations. It might even mean some direct financial assistance. With that example in mind, I think, if you would not mind just taking one minute to finally give a little bit of your experience and tell us how you prefer these types of things to come forward, it would help us.

Mr. WEEKS: I think this can be answered by mentioning two points. When a brief like this is prepared, we would hope it would be prepared with quite a lot of backing in the sense of why the project and what is expected to come out of it. Secondly, we would like to have this passed to provincial governments as well as to ourselves concurrently, because of the fact that we recognize in each province it would be very difficult for us to operate, say, on a thing like your road unless the province was entirely aware. We do not necessarily have to have agreement of a province on a thing but we would like to move, as parallel as possible, because of the jurisdiction of the provinces in these particular fields. I would suggest, to sum it up, that you present your brief concurrently to us and to the provincial governments, in this case, Nova Scotia and New Brunswick.

Mr. BELL (*Saint John-Albert*): In the case of the roads, which I mentioned, you would not be interested in the technical part of it so much, like the mileages and the terrain as the practical benefits, and this sort of thing.

Mr. WEEKS: That is right. The mileages and the terrain and so on are matters for engineering service. What we are interested in is why do you think that this is a good thing to invest money in. What do you think will come out of this road for the benefit of the economy of the provinces of Nova Scotia and New Brunswick.

Mr. BELL (*Saint John-Albert*): In the case of a great tourist potential, if the figures and quotations from tourist experts were included, this would help to sell the whole project.

Mr. WEEKS: That is, to assess it.

Mr. BELL (*Saint John-Albert*): To assess it, yes.

Mr. WEEKS: I would repeat the point that we have, incidentally, liaison officers in each of the provincial governments, and we would want to know that the provincial governments were aware of this proposal, because inevitably we would want to discuss it with the provincial governments. Therefore, you are sending a brief to us but you are sending a copy of this brief to the provinces at the same time.

The VICE-CHAIRMAN: Is Item No. 110 carried?

Item agreed to.

Shall I report the estimates to the House?

Carried.

Mr. DEACHMAN: Mr. Chairman, did we tidy up the matter of the Air Transport Board; was that stood over or have we dealt with it? I thought the Air Transport Board was still outstanding?

The VICE-CHAIRMAN: No, that was voted yesterday.

Mr. DEACHMAN: That was voted yesterday?

The VICE-CHAIRMAN: Yes.

The estimates of the standing committee on Transport are complete and the Committee is adjourned at the call of the Chair.

I would like to thank Dr. Weeks and his associates for their kindness. Thank you very much.

APPENDIX A-8

COMPARATIVE PORT CHARGES

Certain misleading allegations have recently been made purporting to show that Vancouver is a more costly port than Eastern Canadian National Harbours or competitive United States ports. Since such assertions must inevitably damage the reputation and interests of the port of Vancouver, the National Harbours Board has prepared a comparison of port charges which clearly shows that Vancouver is not at a competitive disadvantage.

The attached statement is based on a typical vessel. As might be expected, charges in different ports under various revenue headings show certain differences. The important comparison is between total charges. Charges at Vancouver can be seen to be remarkably close to those at Montreal and to compare extremely favourably with those at competitive United States ports.

Certain general observations may be made on these figures. While harbour dues are higher in Vancouver than Montreal, it must not be overlooked that at Vancouver such charges are payable only for the first five visits by any vessel. In Montreal these charges are payable for every visit.

It is also worth noting that in Vancouver, harbour dues are no higher than when the N.H.B. assumed responsibility for the port thirty years ago. At Eastern National Harbours, harbour dues were sharply increased two years ago.

Cargo rates, when viewed as part of total vessel and cargo charges can be seen to be relatively unimportant. (Cargo rates at present being levied are much lower than those established by the former Harbour Commissioners).

A comparison of Vancouver port charges with those in effect in Washington and Oregon ports is seriously deficient if no reference is made to the service charges applicable at these ports. These charges are generally for services *incidental* to receiving and delivery of freight (such services are covered in Vancouver by the various N.H.B. tariffs which are listed).

As regards wharfage, a completely false impression can be given if the basis of tariff assessment in each port is not clearly understood. For example, at Vancouver and Seattle a number of commodities are specifically assessed on a weight basis. Where this is not specified in the Vancouver tariff (e.g., "all goods n.o.s.") commodities are assessed per ton weight or measure whichever yields the greater revenue subject to a limit of four to one ratio measurement to weight.

At Montreal on the other hand the tariff is assessed weight or measure as carried by the vessel or if the vessel carries on another basis (e.g. per package, etc.) weight or measure whichever yields the greater revenue: there is no ratio limitation. Furthermore, in making any comparison with the Eastern harbours wharfage tariff, note must be taken of the 50 per cent surcharge applicable on all items in that tariff.

The N.H.B. statement has omitted demurrage from the comparison of port charges. Anybody familiar with transportation practices will recognize that although it appears in the tariff it is not properly considered a port revenue item. This charge is essentially a penalty which is imposed should operating

circumstances warrant; its purpose is to ensure the availability of shed space for transit cargo.

Certain commodities have been selected for comparative purposes. This comparison should be viewed in the light of the foregoing remarks. The this list has been added another column showing wharfage at Seattle. A few additional commodities have been added to present a more balanced statement.

In making a balanced comparison between Montreal and Vancouver some recognition should be given to the fact that at Montreal the Board earns substantial revenues from shed rental: this charge has no counterpart in Vancouver.

The National Harbours Board seriously questions the usefulness of comparing Vancouver port charges with those applicable at Eastern National harbours. Insofar as port charges are significant, Vancouver's competitive position is governed by its charges compared with those at competitive West Coast ports. It is absolutely untrue to suggest that charges levied by the National Harbours Board in Vancouver have put the port at a competitive disadvantage. For some time port authorities have recognized the difficulties of making valid and precise comparisons between ports. Even experienced rate analysts approach the problem warily in view of the variety of differences in terminology and port practices. More than careful reading and analysis of port tariffs is needed since many port procedures do not appear in published documents.

In the interests of Vancouver the Board wishes to set the record straight on port charges.

Vancouver

March 8, 1966.

COMPARISON OF PORT CHARGES

A vessel of 9329 G.R.T., 5516 N.R.T., 28-foot draft, 506 feet in length, with a cargo of 2,000 tons of Canned Goods, at berth for four days (96 hours)

NATIONAL HARBOURS BOARD

	<i>Vancouver</i>	<i>Montreal</i>
Harbour Dues	165.48	110.32
Dockage	607.20	634.34
Service Charge .....	....	....
Cargo Rates	120.00	....
Wharfage	1,200.00	1,200.00
Total	2,092.68	1,944.66
Pilotage Charge	154.65	444.01
	<u>2,247.33</u>	<u>2,388.67</u>

WASHINGTON & OREGON PORTS

	<i>Bellingham & Tacoma</i>		<i>Seattle & Portland</i>	
Harbour Dues ....	.....		.....
Dockage	315.12		315.12	
	Import	Export	Import	Export
Service Charge ...	3,100.00	2,000.00	4,040.00	2,600.00
Cargo Rates .....	.....		.....
Wharfage	1,600.00		1,600.00	
Total	5,015.12	3,915.12	5,955.12	4,515.12
Pilotage Charge ...	188.00		188.00	
	5,203.12	4,103.12	6,143.12	4,703.12

The foregoing is a summary of charges against a typical vessel and cargo. These can be broken down into two areas:

Vessel

Harbour Dues

Dockage

Pilotage

Cargo

Cargo Rates

Wharfage

Demurrage

(The Service Charge at U.S. Ports can be divided between the vessel and cargo.)

The charges would therefore break down as follows:

	<i>Vancouver</i>	<i>Montreal</i>	<i>U.S. Ports</i>	
Vessel	927.33	1,188.67	503.12	} +4,040.00*
Cargo	1,320.00	1,200.00	1,600.00	
	2,247.33	2,388.67	6,143.12	

*Service Charge.

Harbour Dues at Vancouver are limited to five trips per year per vessel, whereas in the Eastern Ports they are assessed on every trip. Vancouver also exempts all vessels of Canadian registry engaged in commercial fishing.

Wharfage charges on overside cargo are assessed at fifty (50) percent of the tariff rates. The majority of U.S. Ports and Eastern Canadian Ports make no such allowance.

COMPARATIVE WHARFAGE RATES
VANCOUVER, SEATTLE AND EASTERN N.H.B. PORTS

Commodity	Vancouver ⁽¹⁾		Seattle ⁽²⁾		Eastern N.H.B. Ports ⁽³⁾	
	Wharfage	Unit Basis	Wharfage	Unit Basis	Wharfage	Unit Basis
	\$		\$		\$	
Brick, loose, per ton.....	.60 (in)	Ton Wt.	.80	Ton Wt. or Meas.	.22½ and .45	Ton Wt. or Meas.
Drums and Barrels, empty.....	1.20 (in)	Ton Wt.	.80	Ton Wt. or Meas.	.07½	Each
Fresh Fruit and Vegetables in Containers.....	.90 (in)	Ton Wt.	.80	Ton Wt. or Meas.	.45	Ton Wt. or Meas.
Iron and Steel Bars and Beams.....	.60 (in)	Ton Wt.	.80	Ton Wt. or Meas.	.60	Ton Wt. or Meas.
Iron and Steel Fencing.....	1.20 (in)	Ton Wt.	.80	Ton Wt. or Meas.	.67½	Ton Wt. or Meas.
Hardwoods Loose (1,000 F.B.M.).....	2.00 (in)	F.B.M.	.70	F.B.M.	.45	F.B.M.
Meats, Frozen.....	.90 (in)	Ton Wt.	.80	Ton Wt. or Meas.	.30	Ton Wt. or Meas.
Asbestos Fibre.....	.75 (out)	Ton Wt.	.80	Ton Wt. or Meas.	.37½	Ton Wt. or Meas.
Fertilizers, in Containers.....	.60 (out)	Ton Wt.	.80	Ton Wt. or Meas.	.37½	Ton Wt. or Meas.
Lumber, Rough-Dressed, not Packaged, (1,000 F.B.M.).....	.75 (out)	F.B.M.	.70	F.B.M.	.45	Ton Wt. or Meas.
Ores and Ore Concentrates.....	.60 (out)	Ton Wt.	.50	Ton Wt. (bulk)	.15 to .62½	Ton Wt. or Meas.
Paper in Rolls (Newsprint).....	.60 (out)	Ton Wt.	.60	Ton Wt.	.30	Ton Wt. or Meas.
Pulp.....	.60 (out)	Ton Wt.	.50	Ton Wt.	.22½	Ton Wt. or Meas.
Canned Seafood.....	.60 (out)	Ton Wt.	.015	Ton Wt. (N.O.S.)	.60	Ton Wt. or Meas.
All Goods N.O.S.....	.60 (in/out)	Ton Wt. or Meas.	.015	48 lb. case (Salmon)		
Canned Goods.....	.60 (in)	Ton Wt.	.80	Ton Wt. or Meas.	.75	Ton Wt. or Meas.
Coffee.....	.75 (in)	Ton Wt.	.80	Ton Wt. or Meas.	.60	Ton Wt. or Meas.
Explosives.....	.60 (in/out)	Ton Wt.	.80	Ton Wt.	.75	Ton Wt. or Meas.
Grain in bulk.....	.03 (out)	Ton Wt.	.80	Ton Wt. or Meas.	3.00	Ton Wt. or Meas.
Liquor.....	1.50 (in)	Ton Wt.	.50	Ton Wt.	.09	Ton Wt. or Meas.
Trucks.....	2.00 (in)	Each	1.15	Ton Wt.	3.00	Ton Wt. or Meas.
			3.00	Ton Wt.	4.50	Each

⁽¹⁾ At Vancouver certain commodity rates differ for inward and outward movements.

⁽²⁾ Tariff issued February 11, 1966, effective March 18, 1966.

⁽³⁾ Including 50% surcharge.

DOCKAGE AND HARBOUR DUES

"Simonburn"—————12,279 N.R.T.—630 feet
(at berth 75 hours and 10 minutes)

	Vancouver	Eastern Ports
Dockage	\$ 630.00	\$1,258.60
Harbour Dues	368.28	245.18
	<hr/>	<hr/>
	\$ 998.28	\$1,504.18
	<hr/>	<hr/>

"Sonic"—————17,809 N.R.T.—746 feet
(at berth 390 hours and 5 minutes)

	Vancouver	Eastern Ports
Dockage	\$3,389.64	\$7,613.35
Harbour Dues	534.27	356.18
	<hr/>	<hr/>
	\$3,923.91	\$7,969.53
	<hr/>	<hr/>

JANUARY SHIPS

Arizona Maru

Gross—9,185

Net—5,313

Length—512'

Ellen Bakke

Gross—9,516

Net—5,550

Length—506'

Isobel

Gross—9,746

Net—5,835

Length—509'

Atlas

Gross—9,724

Net—5,603

Length—499'

Havana Maru

Gross—9,375

Net—5,471

Length—512'

Kristin Bakke

Gross—9,595

Net—5,595

Length—507'

Bolinas

Gross—9,371

Net—5,586

Length—507'

Heogh Dyke

Gross—9,974

Net—5,596

Length—515'

Pacific Stronghold

Gross—9,439

Net—5,572

Length—501'

Diamantis Pateras

Gross—9,087

Net—5,246

Length—496'

Hoyanger

Gross—9,477

Net—5,510

Length—511'

Portland

Gross—9,135

Net—5,422

Length—500'

Shigaharu Maru

Gross—9,290

Net—5,458

Length—515'

COMPARISON OF PILOTAGE RATES BASED ON S/S "PEARLSTONE"

8,000 gross tons, 4,813 net tons, 28 feet draft

British Columbia

Rates— $\frac{1}{2}$ c. per gross ton
\$1.00 per foot draft
\$1.00 per mile

Sea to Vancouver (80 miles)	\$148.00 Pilotage Charges
-----------------------------	---------------------------

St. Lawrence Pilotage Station Les Escoumains to Quebec

Rates—\$5.20 per foot draft
 $\frac{3}{4}$ c. per net ton

Distance about the same	\$181.70 Pilotage Charges
-------------------------	---------------------------

Quebec to Montreal

Rates—\$7.21 per foot draft	
1c. per net ton	\$250.01 Pilotage Charges

Total—Les Escoumains to Montreal—\$431.71

Puget Sound Pilotage

Rates—Straight \$2.35 per mile

Sea to Vancouver (80 miles at \$2.35) \$188.00

NOTE:

Les Escoumains to Quebec — has a minimum draft of 15 feet,
minimum tonnage of 2,000 net and
maximum tonnage of 15,000 net.

Quebec to Montreal — has a minimum draft charge of \$115.44
minimum tonnage charge of \$20.41 and
maximum tonnage charge of \$153.12.

VESSEL COLORADO STAR — Gross Registered Tonnage	8292
— Net Registered Tonnage	4968
— Length	466'
— Draft	28' 7½"
— Cargo Tonnage—discharge	1599
—load	2065

At berth—December 20, 1965—0505 to January 5, 1966—1830

Comparative Charges

	Vancouver	Seattle
Pilotage	150.46	188.00
Harbour Dues	149.04	....
Dockage	1,843.62	1,463.56
Lines	136.50	165.80

Inward

Cargo Rates	113.81	....
Wharfage	1,290.78	1,536.80
Handling	5,660.21	5,749.22
Car Loading	228.20	207.68
Service Charge .....	....	2,580.92

Outward

Cargo Rates	84.87	....
Wharfage	665.07	1,172.45
Handling	2,782.42	3,724.75
Car Unloading	1,120.21	1,192.28
Truck Unloading	721.46	(1)
Service Charge .....	....	1,476.91
	<u>\$14,946.65</u>	<u>\$19,458.37</u>

- (1) Truck Unloading Charges in Seattle not performed by dock but by truck line, the charge being incorporated in the truck rate.

Seattle	\$ 19,458.37
Vancouver	14,946.65

\$ 4,511.72 or 30.2% higher

VESSEL KOCHO MARU	— Gross Registered Tonnage	9197
	— Net Registered Tonnage	5372
	— Length	496' 2"
	— Draft	29' 7 $\frac{1}{4}$ "
	— Cargo Tonnage—discharge	907
	—load	547

At berth—November 11, 1965—2145 to November 14, 1965—1640

Comparative Charges

	Vancouver	Seattle
Pilotage	155.99	188.00
Harbour Dues	161.16	....
Dockage	368.90	223.21
Lines	182.00	165.80
Inward		
Cargo Rates	73.70	....
Wharfage	799.33	1,186.25
Handling	3,528.80	3,474.04
Car Loading	802.26	880.07
Service Charge .....	....	1,508.94
Outward		
Cargo Rates	18.03	....
Wharfage	196.94	306.24
Handling	241.14	411.66
Service Charge .....	....	319.54
	<hr/>	<hr/>
	\$6,528.25	\$8,633.75

Seattle	\$ 8,633.75
Vancouver	6,528.25
	<hr/>
	\$ 2,105.50 or 32% higher

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament
1966

STANDING COMMITTEE
ON

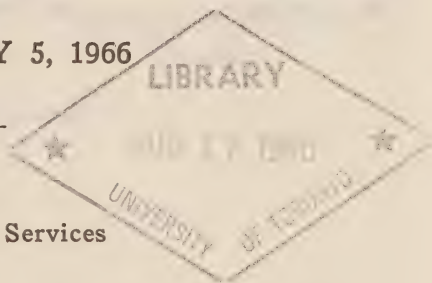
TRANSPORT AND COMMUNICATIONS

Chairman: Mr. JOSEPH MACALUSO

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 22

TUESDAY, JULY 5, 1966

Respecting
Railway Passenger Services



WITNESSES:

Hon. John Turner, Minister without Portfolio. *From the Canadian National Railway:* Messrs. Donald Gordon, Chairman and President; Ralph Vaughan, Vice-President and Secretary; Norman J. MacMillan, Executive Vice-President; Jean Richer, Vice-President, Passenger Sales and Dr. Robert Bandeen, Director, Corporate Planning.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE
ON
TRANSPORT AND COMMUNICATIONS

Chairman: Mr. Joseph Macaluso

Vice-Chairman: Mr. H.-Pit Lessard

and

Mr. Allmand,
Mr. Andras,
Mr. Ballard,
Mr. Bell (*Saint John-
Albert*),
Mr. Byrne,
Mr. Cantelon,
Mr. Carter,
Mr. Deachman,

Mr. Fawcett,
Mr. Horner (*Acadia*),
Mr. Howe (*Wellington-
Huron*),
Mr. Hymmen,
Mr. McWilliam,
Mr. MacEwan,
Mr. Olson,
Mr. Pascoe,

Mr. Reid,
Mrs. Rideout,
Mr. Rock,
Mr. Saltsman,
Mr. Sherman,
Mr. Southam,
Mr. Yanakis—(25).

(Quorum 13)

Maxime Guitard.
Clerk of the Committee.

REPORT TO THE HOUSE

TUESDAY, July 5, 1966.

The Standing Committee on Transport and Communications has the honour to present its

NINTH REPORT

On Friday, June 17, 1966, your Committee returned the Main Estimates 1966-67 of the Department of Transport which had been referred to it for consideration.

A copy of the relevant Minutes of Proceedings and Evidence (Issues Nos. 19, 20 and 21 inclusive) is appended herewith.

Respectfully submitted.

JOSEPH MACALUSO,
Chairman.

(Presented on the same day)

MINUTES OF PROCEEDINGS

TUESDAY, July 5, 1966.

(39)

The Standing Committee on Transport and Communications met at 9.35 a.m. this day. The Chairman, Mr. Macaluso, presided.

Members present: Mrs. Rideout and Messrs. Allmand, Andras, Bell (*Saint John-Albert*), Byrne, Cantelon, Deachman, Fawcett, Howe (*Wellington-Huron*), Lessard, Macaluso, MacEwan, McWilliam, Pascoe, Reid, Sherman, Southam—(17).

Also present: Hon. John Turner, Minister without Portfolio.

In attendance: From the Canadian National Railways: Messrs. Donald Gordon, Chairman and President; Ralph Vaughan, Vice-President and Secretary; Norman J. MacMillan, Executive Vice-President; Jean Richer, Vice-President, Passenger Sales, and Dr. Robert Bandeen, Director, Corporate Planning.

The Chairman opened the meeting and introduced the officials from the CNR.

On motion of Mr. Reid, seconded by Mr. Cantelon,

Resolved unanimously,—That the brief, presented by the CNR and entitled (Passenger Services), be printed as an appendix to this day's Minutes of Proceedings and Evidence (*See Appendix A—9*).

The Committee resumed its consideration of the adequacy of the present program and future plans for passenger service on the lines of the Passenger Services provided by the CNR.

Slides on the new turbo train CNR is planning to put into service in 1967, were shown and commented on by Messrs. Richer and MacMillan.

Then the Committee recessed from 10.45 to 11.00 a.m. On reassembling, Mr. Gordon made a short statement before he and the other witnesses were questioned thereon.

The examination of the witnesses being completed, at 1.00 p.m. the Committee adjourned to the call of the Chair.

Maxime Guitard,
Clerk of the Committee.

EVIDENCE

(Recorded and Transcribed by electronic apparatus)

TUESDAY, July 5, 1966.

The CHAIRMAN: I see a quorum present. Gentlemen, before we begin our meeting I would like to introduce Hon. John Turner, Minister without Portfolio.

We have with us today Mr. Donald Gordon, Chairman and President of the Canadian National Railways, Mr. Ralph Vaughan, Vice-President and Secretary of the Company, Mr. Norman J. MacMillan, Executive Vice-President, Mr. Jean Richer, Vice-President of Passenger Sales and Dr. Robert Bandeen, Director of Corporate Planning.

We are happy to have you with us, Mr. Gordon, and your officials.

We will be dealing, gentlemen, with the Annual Report, 1965 with passenger services at pages 9 and 10 only. We will deal not only with the report of the CNR, but also in the light of our terms of reference, to the Canadian National Railways passenger policies, their passenger sales and their programming. I thought it best therefore to deal only with the Annual Report which deals with passenger services. Therefore question will be restricted only to the CNR passenger service. The brief which was forwarded to every one deals only with passenger service. You received the brief yesterday. The brief will not be read. It will be printed as an Appendix to our Minutes of Proceedings and Evidence if I may have a motion to that effect. Moved by Mr. Reid and seconded by Mr. Cantelon. All in favour?

Motion agreed to.

Mr. BYRNE: Are there any copies available?

The CHAIRMAN: There is only one copy in English and a few copies in French here now. The procedure which will be followed is that there will be a short opening few remarks by Mr. Gordon. We will then move into the slide presentation which will be presented by the CNR dealing with their passenger services, and we will also be having some discussion with respect to the turbo train, which is before you.

The tapings of the presentation will have to be made of the presentation with the slide. Where there are any graphs and projects I am informed that they will be provided, to be printed as an appendix to the Minutes of Proceedings and Evidence in order that they may follow in chronological order. There will be no questioning allowed during the presentations of the slides. If you have any questions, just mark them down on your tablet and questions will commence after the slide presentation. There may be some interjectory remarks by various officials during the slide presentation to explain some matter. It may be possible that if there is a certain specific question on a particular topic the slides may be shown dealing with that question. Therefore, gentlemen, unless there are any other questions, I am prepared to proceed with Mr. Gordon.

Mr. DONALD GORDON, (*Chairman and President of Canadian National Railways*): Thank you, Mr. Chairman. I just want to say on behalf of the Canadian

National that we are pleased to respond to your invitation to appear before this Committee this morning. I have some reason to believe that the Committee has taken an interest in certain types of passenger service, and, therefore, the Canadian National wishes to tell you what we can about the passenger service and the policies of Canadian National.

For that reason I have brought along with me the officials the Chairman has told you about because we approach our policy in this respect, and indeed, our operations generally, as a team, rather than as a one-man show. So that the men I have with me here will be available and will be competent to deal with any phase of our passenger set-up both from the standpoint of its operation and its policy.

As your Chairman has told you, we have made a presentation which we have placed before you and I hope you have had an opportunity to read it. Mr. Richer, the Vice-President of Passenger Sales and Traffic will make a presentation also on the screen set-up which we have here, and when that is done I hope you will not hesitate to proceed with us in respect of any questions you might have.

Let me repeat that our purpose in being here is to assist the Committee and that any suggestions we have made in regard to procedure is solely in the interests of expediting the presentation and to provide information to the Committee on an orderly basis. But subject to that, I need hardly say that we are prepared and available to proceed to assist you in any way that you wish.

Perhaps, Mr. Chairman, if it is agreeable, Mr. Richer may as well start now with his presentation which is all set up and in front of you.

The CHAIRMAN: Fine, Mr. Gordon.

Mr. GORDON: Mr. Chairman, I would rather have this off the record.

The CHAIRMAN: Cut the tape on this, please.

Mr. RICHER: Mr. Chairman, members of the Committee, first, I would like to say that my presentation, or the presentation that we will give you, will be in French and English but not concurrently. Furthermore, I would like to say, as I go along with this slide presentation, you will appreciate that we have read all the evidence that was brought before you and we felt that after the tremendous volume of words and written depositions this story of the passenger business has a lot of advantages to be seen pictorially. I think that you will appreciate that the visual help aids immeasurably in making the story.

In order to put the CN's passenger story clearly in perspective it is necessary to look back as far as 1946 when the passenger revenues began to decline. From 1946 to 1960 CN's revenue passenger miles decreased by 47 per cent. By 1960 it was well known that public attitudes were poor and passenger service employee morale was very low. It was widely assumed in North America that rail passenger service had more of a past than a future.

(Translation)

The competition to rail traffic by road and by air was increasing. This can be explained very easily. The CN was maintaining too many uneconomic services in unpopulated areas, the mainlines were used by too few passengers. The schedules of passenger trains were complicated by express services.

For a long time, no technical or technological change had been made to passenger trains.

(English)

Mr. MACMILLAN: At that time we carried our express and mail also on passenger trains.

(Translation)

Mr. RICHER: New colour combinations were put on the outside of the train. The cars were redecorated according to new aesthetic values during the years 1964 and 1965. According to an accelerated program of visual identification there were style changes in and modernization of more than 700 cars was changed. Advanced training courses were given to passenger train staff so as to insure better services to the customers. Some time tables were improved in November 1965 to the "Rapido"; the speediest train on the North American Continent was put into service between Montreal and Toronto.

(English)

Mr. MACMILLAN: The real purpose, gentlemen, of these slides is to indicate the rapid changes that there has been in servicing trains, and here you see a block of ice in mid air between two men, the means by which dining cars were iced.

Mr. RICHER: Too many different and conflicting fare plans were competing for the customer's favour.

Between 1960 and 1963, much was done to reduce expenses. Many unprofitable train services were eliminated. A start was made on removing express traffic from passenger trains, and train and car miles were significantly reduced. This permitted a 23 per cent reduction in the passenger car fleet.

The CN commenced reorganizing the function of the passenger department. New people and new ideas came into the department, culminating in the appointment of a vice-president of passenger sales and services. Nineteen hundred and sixty-one was a year of market analysis and planning. What could be done to revive and expand business in areas where the market was promising. Sensitive to price changes was the travel market. The CN launched a bold experiment in the maritimes to find out, without making any major product changes. The new pricing system was designed to make fuller utilization of the capacity available on non-peak travel days. The three fare levels were named red, white, and blue.

At the same time tourist and coach class tickets were eliminated and meals were supplied on a complimentary basis to sleeping and parlour car passengers. After only one year of experience we were able to see significant revenue in passenger mile increases and happily the increase has continued right through 1966.

Mr. MACMILLAN: As we go through this we shall give you more information regarding the latter years, the years after 1961, 1962 and 1963. The point I really wish to make at this time is that the figures shown for 1966 are, of course, based on actual figures to the end of May with a projection for the remainder of the year.

Mr. RICHER: From 1961 to 1966 the traffic handled on the maritime service trains more than doubled; the revenue gained was 66 per cent in the same period. However, in the past two years the increase in revenue exceeded the gain in passenger miles. In 1966, for example, the increase in traffic over 1965

was 10 per cent but this was less than one sixth of the total increase since 1961. The gain in revenue in 1966 will be 12 per cent over 1965, representing more than one quarter of the total revenue gained since 1961.

Mr. MACMILLAN: We use here as a basis 1961, and I think I should perhaps define passenger miles for you. This is the sum of the number of passengers multiplied by the miles which each travelled on the average. We have the figures shown of 190 million, or a percentage increase of 110 per cent. That, expressed in dollars, becomes the \$4.6 million which is in the second line; the pertinent percentage is 66 per cent. For the comparison between 1965 to 1966, 1966 again being part of the projection, gives us 30 million additional passenger miles with an increase of 10 per cent, and expressed in dollars, \$1,285,000, with a percentage rise of 12 per cent.

Mr. RICHER: In November 1963, the red, white and blue plan was extended to all Canada with appropriate promotional support. Here are some of the results of the nation-wide red, white and blue program introduced in 1963. Revenues on the Transcontinental train services west from Montreal and Toronto showed a sharp rise that continued to 1966, the percentage increase having exceeded the maritime gain, and the effect on system figures has also been significant. From a low point of \$47.9 million in 1961, revenues earned by passenger trains in 1966 will have climbed to \$78.5 million. Expenses have also been climbing but not at the same rate as revenues. In 1966, revenues will be up 64 per cent over 1961; expenses in 1966 will be up only 24 per cent over 1961.

Mr. MACMILLAN: We feel this is a very significant chart in that it does show a definite revenue increase of a substantial amount. Revenue is in this five-year period up by \$30.6 million or 64 per cent. That has been attended by an expense increase of \$22.7 million or 24 per cent. In other words, the gap is being closed.

Mr. RICHER: The results clearly show that Canadians would and did respond in volume to price revisions designed to make rail travel competitive without a move. But price was not the total answer as you can well see from the left hand side of the picture. CN had proven that it was possible to bring people back to the trains with an attractive fare plan but to keep them there, other improvements had to be made and here are some of them.

New uniforms for passenger service employees began to appear. Passengers were offered new amenities. A special hour was set aside for the children with games and toys, and for adults, bingo in the dining car each evening.

CN did not expect, however, to solve all its problems overnight. Nor has the time arrived yet when CN can say with confidence that it has all the answers, but we learned. Careful analysis of our experience, using all the sophisticated tools at our disposal including computers, such as this one, has lead us to these conclusions.

CN believes that there are some market areas where the travel potential is good and the passenger train is or can be made truly competitive.

Mr. MACMILLAN: From this chart there is an implication that we are confining our interests to the main line. I wish to correct that inference. We recognize there are other lines which will stand on their own feet, and there are others again which have a very substantial feeder value feeding to the main

line. The message I really have is that we are not restricting ourselves to the red lines shown on this chart.

Mr. RICHER: CN believes that there are some areas where travel modes other than the passenger train can provide more appropriate transportation. In areas where there is no travel potential and at the same time no alternative, the railway should be compensated for losses in providing the service. CN has found that the passenger train is most efficient in a mass travel situation of more than one hundred miles. By actual experience CN has found that modern marketing rules govern the merchandising of passenger travel just as they do the sale of other goods and services.

The red, white and blue fare plan has produced spectacular results proving that the travel market is sensitive to price changes but not all the potential of the red, white and blue plan has been realized. Maximum development of any such fare or service program requires experience, consistency and patience. Study and analysis of the present plan and operations reveal much opportunity for streamlining and for reductions in expenses; full appreciation of the lessons learned during the years of experimentation did not come easily or immediately. From the start of red, white and blue in mid 1962 it took more than three years to develop an integrated system-wide red, white and blue fare plans. Ironically, the high density full territory between Montreal and Toronto was the last to receive the benefit of new passenger prices. As a result, the full impact of fare changes could not be felt before late 1965. Fare changes are not fully effective unless service is competitive. Major improvements in train services were not introduced until 1965, although redesign and refurbishing programs had been under way earlier.

In 1965, the "Panorama" operated for the first winter and that autumn major improvements were made in service between Montreal and Ottawa, and between Montreal and Toronto. It was therefore, late 1965, following dissolution of the 32-year old pool agreement, before substantial and related fares, service changes began working together. The full impact of changes in fares and services are not experienced immediately or even necessarily in the first year following the improvement. Nevertheless, the Company's revenue position took an immediate and short jump in November of 1965. From an average increase in monthly revenue of about 10 per cent over the previous year, the revenue gain advanced in November and December to about 30 per cent over the previous year and results for the first half of 1966 showed the same high rate of gain.

Mr. MACMILLAN: This chart is to be emphasized. In the initial period in 1965, from January to October, the increase was as this indicates about 10 per cent. But in the fall of the year, and in part this attributable to the termination of the pool, the increase went to 30 per cent but the increase was also experienced in transcontinental business and in services which had not been embraced by the pool agreement at any time.

● (10.04 a.m.)

Mr. RICHER: This table shows the annual system passenger services deficit from 1960 to 1966. As a result of the greater rapid gain in revenues, far outdistancing expense increases, the deficit position during 1966 has shown definite improvement. It is apparent from the chart, however, that during the four years of experimenting, 1962-1965, the deficit position worsened in view

of current and projected results. Based upon knowledge gained, CN feels this was a reasonable price to pay. The policy design to maintain the status quo or eliminate the passenger business entirely would not have produced significantly better results during this period, and certainly much poorer prospects for the future.

Mr. MACMILLAN: I wonder if you can all see this chart; it is a wee bit blurred from this distance but the significance of it is, we begin in 1960 with revenues of \$52 million and a deficit for that year of \$46.5 million, on the basis which Mr. Richer explained very briefly. At that time we began the cutting back on available passenger services; we began reducing passenger train miles and attempting to discontinue services in every instance where we had an opportunity to do so. The result of all that was that in 1961 we lost a wee bit of ground and in 1962, reduced our expenses at this point which the deficit was reduced to \$41.7 million. The same experience virtually was encountered in 1963. In that year our revenue went up about \$1.8 million and the expense went up \$1.9 million so that we maintained the status quo.

In 1964, we were well along in our experimental period, and the chart does indicate that our loss at that time was increased to \$46.6 million, that in spite of the revenue gain of \$5.7 million, but the revenue gain was overtaken and passed by expense additions amounting to almost \$11 million. This increase is attributable to a variety and a number of different factors. One is that it was in part the complete or further introduction of the red, white and blue fare structure. As you will have seen in the written submission which we made to you, and will have realized from Richer's presentation, there are fare reductions inherent in the red, white and blue concept on low demand days. This initially we have found can bring about a reduction in income because change is a wee bit delayed in taking place and it takes a while to build up. Secondly, 1964 was the anniversary of our wage contracts and we experienced substantial increases in wages which are absorbed in the \$102.4 million expenses for that year. Similarly, there were price increases in material and attendant expense. The net result was, as I say, a deficit of \$46.6 million. Now, our analysis indicates that, had we done nothing, had we stayed where we had been in 1962—we have a deficit of \$41.7 million—we would have experienced a larger increase in our expenses relative to revenue with the resulting larger deficits by virtue of additional expense. So that one must not think that because the deficit itself did increase from \$41.8 million in 1963 to \$46.6 million in 1964, that that is to be attributed to the experimental period.

The next year 1965, you will see that we were able to secure a revenue increase of \$8 million and a fraction, and the expenses went up, a corresponding amount, \$8.2 million. The deficit came down about \$100,000. In 1966, however the story is quite different. The revenue this year, we are quite confident, will reach \$78.5 million. To do that amount of business we shall have over-all expenses of \$118 million with the resulting reduction in our deficit from \$46.5 million to \$39.5 million. In other words, an improvement of \$7 million which is the best picture that we have had for many, many years.

Mr. RICHER: Looking at 1966 in detail we see that revenues will fall \$2.1 million short of meeting immediately avoidable expenses. These avoidable expenses are the expenses which would disappear immediately if we were to suddenly stop all passenger services. Non-profitable services will be \$6.6 million

short of immediately avoidable expenses, while profitable and potentially profitable services will exceed this level of expenses by \$4.5 million.

Within the category of profitable services are many which are presently unprofitable. However these are either essential feeders for other profitable services or have unrealized profit potential. The over-all loss of \$39.5 million is the lowest since the present passenger service program began and represents approximately fifty cents per dollar of passenger revenue. In 1960 and 1961, the loss was almost equal to the annual gross revenues.

Mr. MACMILLAN: The part of this chart which is to be emphasized is the segregation, or the breaking out, of immediately avoidable expense, on the one hand, and capital charges and longer term avoidable expenses on the other hand. If you follow the chart you will see that in respect of non-profitable services, we anticipate in this year \$19 million in revenue with immediately avoidable expense of \$25.6 million, resulting in a net loss of \$6.6 million, at that position on the chart. Profitable and potentially services will gross \$59.5 million and we shall have immediately avoidable expense of \$55 million with a net profit of \$4.5 million. Immediately avoidable expense embraces the cost of fuel, the cost of food, the cost of wages, and the costs which are directly and immediately ascertainable. They really embrace everything other than those expenses which are flowing from capital investment and longer term avoidable expenses. Now, in longer term avoidable expenses we would have the cost of maintaining passenger terminals and other activities which could not be immediately determined if we did not have passenger service.

Reverting again to the table, the total then becomes \$78.5 million in gross revenue with immediately avoidable expenses of \$80.6 million, resulting in a net loss of \$2.1 million in respect of our passenger operations, if we leave out the capital charges and the longer term avoidable expense which amounts to \$37.4 million but when we add it together the gross deficit will become \$39.5 million.

Mr. RICHER: The trend toward improvement in the deficit position can be illustrated further by showing passenger service deficit for the first two quarters of 1966 compared with 1965 and 1964. In 1965 compared with 1964 the first quarter deficit increased but was lower in 1966. The second quarter shows the same trend in 1965 and in 1966 the deficit was lower than in the second quarter of either 1964 or 1965. The projection for the remaining quarters of 1966 is for a continuation of this improvement.

Here are some of the indications we have in the first half of 1966 that encourage us to make these predictions. Passenger revenues on the three main routes are up significantly and this has been accomplished with much more increases in train miles. The main factors in the train mile increases are the year round operations of the Chaleur train, the increased service between Montreal and Toronto since October 31, 1965, and the addition of some key rail liner runs.

With the experience of the past four years, and particularly of the past six months, we believe it is now practical to plan some substantial changes in our passenger program to reduce the annual passenger loss from \$39.5 million in 1966 to the break even point in the early 1970's.

Mr. MACMILLAN: You will probably recall that in the memorandum which was distributed we discussed various programs which we have in hand directed towards the reduction of the deficit, and we also have included in that statement

a table which ends at 1966, showing the projected deficit of \$39.5 million. This chart is really in emphasis of that written material, and indicates that by 1971 we anticipate being able to meet the deficit. In addition, or as part of that story, we feel that in 1967 we will have recovered all our avoidable expense deficits and that is the short term to which I referred when commenting upon one of the earlier charts.

The blue line on this chart, of course, is merely indicating passing from the deficit position which is red to the blue which is a net profit or a break even position.

Mr. RICHER: Besides a continuation of present growth trends, this program encompasses a number of important measures, all of which must play their part in bringing about this improvement. More than this, to be really effective, many of them must work together. This will be more evident as we take a closer look at the specific parts of the program.

(Translation)

The CN will have better and more economical methods of serving meals while maintaining a high standard of quality. The electronic reservation system, the system which the CNR will use beginning in 1967, will cut costs increase occupancy rates and the efficiency of rolling stock, make for a spreading out of peak traffic and generally improve service.

(English)

I would like briefly to translate this slide because it is a very important slide, in our estimation.

We plan for early 1967 to implement a full reservation system for all coaches on all our main trains. This reservation system would enable us to reduce our cost of operation, make better utilization of our equipment, and also provide a higher occupancy ratio on our trains. Later on, in 1967 or early 1968, we plan to put our entire reservation system, not only coaches, but parlour car and sleeping accommodation, on a full electronic basis when we get a bigger computer available.

(Translation)

The greatest possible use is made of CN terminals and stations. The CN is constantly reviewing its rates to increase its income as much as possible in the existing market conditions. The CN gradually will reduce the free transportation of baggage on inter-city trains so as to gain space and reduce terminal cost.

(English)

In many areas of Canada, the CN provides passenger service where the market potential is not sufficient to justify the cost of rail service, and where good alternative forms of transportation exist. In these instances, CN believes that the railway should withdraw its services in favour of other means of transportation. In some cases, it may be worth while to integrate the service of highway operators with CN main line rail operations, in order to provide good through service and to protect the present feeder value of these branch lines.

In other parts of Canada, where no alternative transportation exists or where this is inadequately developed, it may be necessary in the national

interest to maintain rail passenger services even though the number of travellers is insufficient to cover the cost. In such cases, we believe that the railways should be compensated for the losses which the maintenance of such services will inevitably produce. This is in accord with the views expressed in the MacPherson Commission report. This slide is a picture of our train going to Churchill, and as you know, rail is about the only transportation facility.

(Translation)

The CN is constantly improving its marketing and sales programmes so as to inform passengers of the advantages of train travel.

(English)

The CN is reviewing equipment requirements to ensure availability of sufficient capacity on critical routes, to reduce costs of operation and to improve service in competitive territory in order to raise the average revenue yield. New equipment of all types is being examined and the first major step will be the introduction of turbo trains next year between Montreal and Toronto.

Pursuing this policy aggressively through 1971 should produce results something like this. By the year 1971 the passenger plan just outlined to you will have produced a system break even on passenger services. From the chart you will note that non-profitable services show a surplus of \$10 million over and above immediately avoidable expenses. This \$10 million represents the proportion of capital charges and long term avoidable costs attributable to these operations. The revenues of \$34.5 million incorporate the subsidy necessary to produce an over-all break even on non-profitable services. Profitable and potentially profitable services will by 1971 show a surplus of \$32.2 million. All services will show a contribution of \$42.2 million over immediately avoidable expenses which figure is exactly equal to the long term avoidable expenses and capital charges.

Mr. MACMILLAN: This chart obviously carries a degree of exactness which it is not possible for us to foretell. We could have added "approximately" on the right hand side of the slide adjoining each of the figures shown. We feel that in the year 1971 it is not unreasonable to anticipate revenues of \$34.5 million from the non-profitable services. To do that amount of work we anticipate it will cost us something of the order of \$24½ million resulting in a difference of \$10 million. And, as Mr. Richer has said, it is our view that this amount should be paid to us to justify the maintenance of these services which presumably are in the national interest.

Now, then the profitable, and those lines which today are potentially profitable services, we think will gross revenues of \$105½ million, and that our expense to do that amount of work will be \$73.3 million, resulting in a net of \$32.2 million. So that in the total, our revenues from all sources in the passenger field will amount to about \$140 million, the cost will be about \$97.8 million, and there will be a net of \$42.2 million. To do that we have to have capital investment which is very largely invested now and associated longer term avoidable expenses amounting to \$42.2 million so that the net contribution will be zero and also the deficit will be zero.

Mr. RICHER: To further illustrate this result we see here a projection of total costs, immediately avoidable costs and revenues from 1965 to 1971. In 1965 revenues fell short of meeting immediately avoidable expenses by \$9.2 million.

That is to say, if all passenger services had been discontinued as of January 1, 1965, and all personnel associated with passenger service laid off, the savings which would have been realized in that year would have been \$9.1 million. The remaining savings represented by \$37.3 million of long term costs would have been realized only over a long period of time as equipment could be written off and other adjustments made. By 1966, total revenues will be approximately equal to the immediately avoidable expenses, thus, there is now no immediate or short run advantage to be gained from discontinuing all passenger service.

In 1967, and following with revenues exceeding immediately avoidable expenses, there is a short run disadvantage from discontinuing all passenger services in that the loss of revenues would exceed the savings in cost, that could be realized immediately. By 1971 revenues should meet not only immediately avoidable expenses but long term and capital costs as well.

The foregoing presentation has dealt with the background of CN's passenger policy and its plans for the future. One of the most interesting aspects of these new plans concerns the introduction of a new generation of passenger equipment announced recently for the Montreal-Toronto service. The following slides describe these new trains and compare some of their salient characteristics with present or conventional type of passenger equipment.

(Translation)

This new train has very sensational characteristics. The best way of describing them to you is to show them to you. We believe that the turbotrain of the United Aircraft Corporation and ourselves has the following advantages. A technical improvement, reduction in cost, comfort, higher efficiency, greater productivity and economic operation.

The turbotrain differs in a great many ways from the conventional train as turbotrains are first of all designed for the Montreal-Toronto service whose importance is increasing rapidly and which is highly competitive but let us make a few comparisons between them and the type of equipment now being used by the rapido. The new trains will not have any locomotive nor any dining car as such. There will be two dome motor cars and five cars in between; the whole thing will contain approximately 340 seats.

(English)

Operating two sets in tandem offers slightly more seating capacity than the present "Rapido" but with much better utilization of interior space and existing train sets is 1,260 feet long while the tandem turbo train will be 736 feet long. All motive power equipment is concentrated in the parlour dome cars. A complete train set has four gas turbine engines, each producing up to 400 horsepower. They are virtually noiseless and vibrationless, and burns almost any type of aviation or diesel fuel. They are mounted underneath the dome section and along with all mechanical components can be quickly and easily removed for maintenance.

Mr. MACMILLAN: The two spool-shaped articles are the turbines as shown on this model.

(Translation)

Mr. RICHER: With the exception of the domes, the turbotrains are 30 inches lower than the conventional coaches, and inside they are 6 inches wider. The turbotrain is 10 inches closer to the truck than the conventional train.

(English)

Mr. MACMILLAN: I think I should point out in connection with this slide that the new train is two and a half feet lower than a conventional train and six inches wider, and one of the most significant aspects of the trains is illustrated by the relative height of the floor. You will notice that the body of the new train extends closer to the rail head than does the conventional train. There is a difference of about ten inches in the floor height above the rail head. This is significant in terms of the suspension about which I shall speak a little bit more in a moment.

(Translation)

Mr. RICHER: The turbotrain meets all safety and structural requirements of the Board of Transport Commissioners as well as of the American Railways Association. The Rapido weighs 2.3 million pounds whereas the turbotrain only weighs 600,000 pounds. In weight per passenger, the new one weighs only $\frac{1}{4}$ of the conventional train.

(English)

Acceleration is several times as rapid and braking is much more efficient than for conventional trains. Braking is by composition shoes on treads. It is electrically controlled which reduces response time and also has a second brake, pneumatic control, for added safety. This together with very light train weight accounts for improved braking characteristics.

A system of single axles, guided suspension, smooths the operation of the train around curves and permits higher speeds. The suspension system, combined with the low centre of gravity, allows for controlled banking inward on curves to offset centrifugal forces.

Mr. MACMILLAN: This slide indicates one of the most significant differences between the turbotrain and a conventional train, in that by virtue of the suspension which really works on the principle of a pendulum the centre of gravity is taken down closer to the rail and as it goes into a curve the tendency is for it to sit flatter. We anticipate that we shall be able to use this train on curvatures at speeds up about 30 miles an hour at least more than we can handle today. It is really quite different.

Now then, in the slide before this you may have noticed that there is a single truck. This single truck is midway between the two cars and the two cars themselves are more or less permanently coupled. They cannot be uncoupled the way conventional equipment can be. We would have to take them to the shops to uncouple them, but the result of this is that we very materially reduce the curvature, or the effect of the curvature, when the train is in a curve. The reason is that the two cars are at a different angle to the track than is the set of trucks which carries the weight. There is just one set of trucks such as you see here for each car. This is all of significance in terms of ride, comfort and speed.

Mr. RICHER: The new trains will provide a more comfortable ride at 120 miles per hour than present equipment affords at 90 miles per hour on any given track.

(Translation)

The inside can be divided into coach sections and into parlour car sections, 75 per cent into coach and 25 per cent parlour car. However, this proportion

may be changed as the need arises. In the parlour cars, passengers will be served in their seat, meals will be brought in and installed in each coach just as in a modern aircraft.

(English)

Mr. MACMILLAN: On this train there will be no dining car; the day coach passengers will be able to buy food from snack bars which will be strategically placed throughout the train. The first class or chair car passengers will be fed at their seats on trays using these little tables which come out of the back of the seat in front much the way one experiences on an aircraft today. Food will be precooked off the train in centrally located kitchens and brought aboard and warmed or cooled as the case may be, again following the aeronautical technique.

The schedules of the train are such that I anticipate many passengers will have had their breakfast, lunch or dinner before boarding it. I think this is particularly true of the coach class passengers. By virtue of the lack of necessity for a dining car we are able to reduce the dead weight of the train and thereby smarten its performance and also materially reduce the attendant expense.

(Translation)

Mr. RICHER: There will be a few cafeterias where coach passengers can obtain hot or cold meals which they will eat in their seats.

(English)

Passengers can take advantage of the view from the dome at each end and the centre of each train; four domes for a tandem train.

The train engineer control centre is located on the dome level separated from the passengers by a bulkhead. The latest concept in interior design and passenger amenities will be incorporated into the train to make turbotrains synonymous with ultramodern travel.

The turbotrains will enable us eventually to run non-stop between Montreal and Toronto in less than four hours, although it may not be practical to achieve this at the very start. This is directly comparable to the elapsed time by air, downtown to downtown especially at congested travel times.

(Translation)

There will be three daily services in each direction, from Montreal and from Toronto respectively, in the morning, the afternoon and the evening. Each train then will be able to make the round trip three times a day. Part of the rolling stock which is now being used between Montreal and Toronto, and which is the best which the CN has at the present time, may be used on other trips according to the services' needs.

(English)

Here again is a picture of the train against the Montreal skyline, we wish to welcome you aboard in 1967.

This, gentlemen, concludes the visual presentation that we wanted to make this morning. I would like at this stage to express my deep appreciation for the attention that you have given the presentation and for the opportunity that you gave us to come here before you after your very lengthy and useful discussions and meetings across Canada.

(Translation)

Gentlemen of the Committee I am pleased at this stage to thank you for having given us the opportunity of appearing before you to give you a visual presentation and reply to your questions as to the policy and operations of the CN with regard to passenger train service. Thank you.

(English)

The CHAIRMAN: Thank you very much, Mr. Richer and Mr. MacMillan. Gentlemen, I will call upon Mr. Gordon for some remarks and then after his remarks we will adjourn for fifteen minutes and resume to start the questioning. Mr. Gordon.

Mr. GORDON: Thank you, Mr. Chairman, I just wanted to make this general comment that in the presentation just made, and also in the document which has been circulated, we have put before you a very frank analysis of the situation as we see it. We have not attempted to gloss over anything and we have tried to set down the factual situation as we see it and understand it.

I want to warn you, however, that there are figures throughout the presentation which taken out of context could give you a very misleading story about the results of our passenger business. Therefore, it is important that the presentation should be taken as a whole because there could be discussion very easily come out of stories that picks out certain of the figures and does not relate them to the other things that the presentation has shown.

There are also some uncertainties in our presentation, which I will just comment about because we have no more than the normal share of human wisdom in this respect, and some of these things deal in forecasts. Now, one of the uncertainties that is obviously in front of us is the degree of inflation which might be ahead of us in the next four or five years. As an old time inflation controller, I am not going to make any further comment about that situation, but as you all know warnings have been given about the inflationary context here. But even if that situation were to be such as to make the actual figures that we presented you invalid, it would be invalid on both sides of the equation. In other words, if the wage cost or cost push inflation that has been referred to results in a heavy increase in expenditure, then it will be quite normal to expect that there will be an increase on the revenue side as prices will have to meet that situation. So I am not too worried about the end result in that respect, although the actual figures involved may change.

I want also to express this opinion and call your attention to it definitely. I hope that we have been able to convince you that we in the Canadian National are dealing with a positive policy; that we are not just drifting along but that we have made an intelligent appraisal of each and every factor and have used modern and up to date tools of measurement and analysis so that we can say that we think we know where we are going. We know where our objective is and we have definite plans for reaching that objective. This is not just wishful thinking at all; nor does it represent anything in the form of a gamble or what might be termed a reckless expenditure of money. It is a calculated business risk very carefully done and, as we have said in one passage of this document, our whole objective in connection with the passenger business is to eliminate the passenger deficit, not to eliminate passenger service. Wherever possible, we will maintain passenger service and increase it, provided that the economic results can be justified, all things considered, or that alternative modes of transportation have not got a better place in the travel market than the railway passenger train.

I do want to close my short comment on this note. We have reserved a lot of our material for the presentation to this Committee. We have been criticized in various ways in not having provided figures in respect of our passenger deficit and in some quarters it has been suggested that we are concealing. Well, we have nothing to conceal but we knew that we were going to appear before this Committee in due course with our annual report, and now that we are having a special session, I think it is even more suitable that we should make a complete revelation, a complete presentation of our passenger policy and services in the manner in which we have done. You now have before you, as I say, the whole story, and it is the whole story that should be considered and not part of it. Thank you.

The CHAIRMAN: Thank you, Mr. Gordon. Gentlemen, I think we will adjourn at this time until eleven o'clock sharp so that we may commence questioning at eleven sharp. I urge all members to be here at eleven.

After recess.

The CHAIRMAN: The questioning will start with Mr. Fawcett.

Mr. FAWCETT: Mr. Chairman, I would like to compliment—

The CHAIRMAN: Speak up, Mr. Fawcett, please.

Mr. FAWCETT: First, I would like to compliment the officers of the Canadian National Railways who have made such a good presentation here this morning. Perhaps I should say at the outset that it will be a little hard for me not to be biased because I have been with the Canadian National Railways for 25 years, as Mr. Gordon possibly knows.

The CHAIRMAN: No lobbying for wage increases, Mr. Fawcett.

Mr. FAWCETT: Well, that does not affect me now so—not at this present time anyway.

On page 4, could I ask you Mr. Gordon what your definition of "effective demand" is. This is something that interests the committee, I am sure.

Mr. GORDON: Yes, well we have tried to indicate in the document really what we mean by effective demand. I should say first of all, that effective demand is a term that comes out in the jargon of the economists perhaps, and it can be subject to several different types of meaning, but I think Dr. Bandeen who understands all the queer language of the economist could probably give a better reply than I could. Would you proceed, Dr. Bandeen?

Mr. Robert BANDEEN (*Director, Corporate Planning*): I do not know as I can subscribe to the thought that the economist's language is queer. I think perhaps the use of the term effective demand is peculiar in the sense that it has been applied before this Committee. I think, without getting into a basic lecture in economics, as we are all aware the fact that there is not such a thing as a "demand" that the demand obviously is related to the price you charge, and I think we have been able to prove that very adequately with the experimenting we have done in pricing in the last four or five years. It is impossible to talk about a single demand and mean a single number of people on our trains; that as we change our revenue and vary it upwards and downwards we get very decided effects on the number of people travelling.

Now, the only definition I could give to "effective demand" is that the price is at such a level that we get the number of people on the trains and the revenue from the trains is able to cover the costs of the trains. But as of now, as

you vary the rates charged you vary the number of people on the trains, and also you vary the expenses as you vary the number of people on the trains. So it is quite conceivable that you could have effective demand at various levels of rates, and at various levels of volume of people on the trains, but I think the meaning here is that it is at a fair level where the number of people we are handling exceeds the cost of the operation of the train.

Mr. GORDON: May I just point out the difference between the economist's language and my own. My reply is that if you have a lousy service you will not sell it at any price.

Mr. FAWCETT: In line with this then, I gather from your brief you feel that there is an onus on management to sort of, shall we say, create an effective demand. I mean, to search for ways of creating an effective demand by modernization and innovation.

Mr. GORDON: By all forms of techniques, an analysis of the market, an appraisal of the kind of people and the kind of travel that they want, and then to examine whether the kind of service that can be given by the railway, not only with regard to schedules and frequency but in regard to comfort and every other thing that would cater to the passenger. If that is done and we have enough people in the given market, then I think we could say that we would be in effective demand. But we could, of course, in certain areas, do all the things that I have said and still there would not be enough demand to justify the costs of that particular service, depending on the area.

Mr. FAWCETT: Another thing that has concerned me is, do you think that there is a possibility that passenger business will increase to such a point that it will sort of reach the saturation point where existing facilities will not—for instance, if you were to be required to put on an extra transcontinental train on each way in order to handle the increased business, could this seriously affect handling of freight. Now, I know from experience that the Canadian National are doing a very remarkable job of handling fast freight, but could it affect freight schedules, if you were to be pushed into this?

Mr. GORDON: There is a theoretical point of saturation, of course, but we are so far away from that—Mr. MacMillan, you have been studying this, perhaps you would take that question, would you?

Mr. MACMILLAN: Well, Mr. Fawcett, there is a point at which the superimposition of an additional passenger train will create the situation to which you refer. You know as well as I do that this becomes the square really of the number of trains in meets which we have to encounter and resolve as we move the traffic from east to west, or from west to east. There are places on the system where the traffic density at this point in time is very heavy; and in those locations we could reach this trouble point much more quickly than we shall in other locations.

Mr. FAWCETT: I was only speaking from my experience last summer. I was on the Toronto section of the "Super Continental" and when that train went on it seemed to me that there was in our area a slowing down of fast freight service because of the extra train. Of course, we were in a location where we were more seriously affected by the extra train on account of the time, the schedules, than perhaps some other places. But this was something that I was concerned about.

I would like to get into this business of passenger car construction and redesigning. Is it difficult today to get new passenger equipment? Is it possible to have other than perhaps something that is United Aircraft style train? Is it difficult to have passenger cars constructed today?

Mr. MACMILLAN: I do not think so. I think that any car builder would build passenger equipment if he were to obtain an order which was large enough to justify him tooling up. I think this is the Canadian situation when we are talking in terms of the so-called conventional equipment, the heavy weight equipment that we know so well. The car builders in Canada at the moment are very heavily occupied with building freight equipment and they have not much time left in which to build any passenger equipment. There is one builder in Canada with a very definite interest in lightweight passenger equipment, the equipment of a day coach type and of a lightweight construction. In the United States, of course, you have got the Pullman Company and the Budd Company who are ready to build passenger equipment, I would think, at any time, given an order.

Mr. FAWCETT: The redesigning of a lot of Canadian National equipment is done in Canadian National shops; is that not true?

Mr. GORDON: That is correct.

Mr. FAWCETT: I am thinking of these lounge cars, day coaches that have been converted into a combination lounge and—

Mr. GORDON: These lounges, as you know, a number of units of second hand equipment has been discarded by other railways and we put them into our own shops and modernize them as well as we can. We know that very few railways, in fact I cannot imagine a railway faced with this kind of thing as being the sort of element of the future; that would settle down to order what we call conventional equipment. All we are doing is using up, as we said in this document, we are using up the equipment we have got and making it as attractive as possible, but we know that it is running out its life. That is the point.

Mr. FAWCETT: I am wondering if this renovation of equipment is keeping pace with the increase in passenger travel and the patronage of passenger trains. During the summer months, have you not run into considerable difficulty this way?

Mr. GORDON: Well, we always will have the problem of the peak loads. We always will have that, and it would be entirely economic for us to enlarge our passenger peak to the point that we could take care of any peak load without difficulty. We have got to have a nice judgment there as to what is justifiable in terms of the size of the fleet; and as our passenger demand grows in volume over-all, we of course can divert to keep up to that by increasing the size of the fleet, but I would not want you to think that we are saying that we will completely eliminate the special emergencies that might arise in severe stormy conditions for example, or where the airplanes are closed down, or other forms of transport on strike or in trouble and so forth. We tend to be looked at, be treated by a number of people as a sort of standby to take care of any unexpected development of that kind, and therefore, all we can do is do our best in that respect but there will be peak loads and emergency situations. We will never eliminate those.

Mr. FAWCETT: I see the Chairman waving his hand at me. Mr. Chairman, could I come back again, if there is time later on, because I have other questions.

The CHAIRMAN: Sur, Mr. Fawcett. Mr. Cantelon.

Mr. CANTELON: I would like to say first of all that I appreciated the type of presentation we had this morning. I suppose that is normal for a school teacher who likes to see a real school teacher type of presentation, but it was, I think, an extremely efficient and effective type of presentation. I would like to say too that we are very happy to see Mr. Gordon here this morning, and we hope that his health continues because I think he has made a real contribution to the operation of this railroad and to the country by doing so.

Mr. Fawcett has said quite a bit about effective demand and I think I will just pass that one by because his comment and the answers were sufficient for that particular purpose.

There is one other thing that I would like to discuss. On page 4 of your brief you say that you are making "a close study of all types of equipment and methods of operations that might enable the company to attain these objectives." Further down on the page, "in the United States, the federal government has established a \$90 million, three-year program of high-speed ground transportation research and development." I would gather that in this country that you have to do it all. Is that right?

Mr. GORDON: Well, not necessarily, because in fairness, if you look at the United States proposal there is a \$90 million research which has to do with all forms of ground transportation. It is not devoted entirely to railways, although railways have got the priority in the sense they feel they can get the biggest potential there. But this research program will be in regard to any type of equipment operating on the ground or related to the ground. What I mean by that is that the Hovercraft type of equipment might be a case in point. What we are saying here, and what I want to make clear is that we will be fully abreast of any new technology, and if there were to be another breakthrough as extreme as this, then you can depend I think on the CNR tackling that on the basis that it would be an economic venture, if it were demonstrated that they would satisfy themselves that the use of new technology would be worth while. It would not affect the forecast in regard to the results.

Mr. CANTELON: Well, I think I speak for everybody here when I say that this is the attitude of mind that we are happy to see in the top management of the C.N.R. We feel this way, I think, because you point this out on page 14 where you say that "the technology used by virtually every passenger railway in North America has remained basically unchanged for many years". There are many of us who feel that it is time it was changed and it is because it is unchanged that there have been such great losses in passenger service in the railways in the last year.

On page 6 of the brief you list three ways in which you hope—they are (a), (b), and (c), at the bottom of the page—you can eliminate the deficit. I wonder whether I would be wrong if I would put a fourth with it, and say that research leading to changes in operation is another way. Perhaps this is envisaged in one of the three subheadings that you have there.

Mr. GORDON: I do not think you quite got the message, if I may say so. What we are trying to say here is that when we tackled the problem of

eliminating the passenger deficit, there were three courses open to us, we thought, at that time, and they are listed there. We discarded item number one, (a). We said that we could have retained "all remaining services plus an all-out effort to attract a greatly increased volume of traffic to these services, in an effort to make them profitable." We discarded that because we realized we cannot retain all services. There are some services that will have to go and these are under examination now and indeed there are some applications before the Board of Transport Commissioners in that connection, but we then said that a combination of (b) and (c) and I think (b) and (c) include what we have in mind. And naturally we will see to it that new technology will be—a combination of (a) and (b) is really what I had in mind. Yes. We eliminated (b) as not being within our policy. We are not planning to phase out all our passenger operations. We think that would be wrong.

Mr. CANTELON: In other words, you are doing some curtailment but you are also hoping that you can, by the use of research and by new principles, make your passenger services profitable.

Mr. GORDON: Exactly, sir. Yes.

Mr. CANTELON: These are the main points that I had in mind. There is one other thing that just, personally, I would like to ask about. In the presentation here I missed the point on the braking of this train. Did I hear correctly that the braking is done by pressure on the track?

Mr. MACMILLAN: The basic braking is done by a composition shoe which presses on the wheel as such.

Mr. CANTELON: It was not on the track?

Mr. MACMILLAN: Yes. No. If I might add a word about your question regarding research, we feel very strongly that research has to be one of the tools we use to achieve our objectives, and we are using it as intensively and as extensively as we can right now. We are investigating almost anything that has a bearing on the passenger service, anything we have thought of. We have not by any means exhausted this question. With feeding, for example; we have done an enormous amount of work on feeding passengers because this is a very expensive phase of our business. And associated with that, and going along contemporaneously are market researches, because we have had to ascertain where markets truly existed, and orient the service to the market.

Mr. GORDON: There is a very definite need for enlarged research in Canada on the whole subject of transportation. It should not be confined only to one company. It should be, in my opinion—I have said this publicly so I will say it again—a government-sponsored plan, so that all phases of research could be properly pursued and I am sure to great advantage, not only in the railway business, but to all forms of transportation.

Mr. CANTELON: I am very happy to hear you say that because this is my personal feeling and this is one of the things that some of us have been hammering away at in this transportation Committee. We would like to get before the government that we think that the government should do something to assist research in transportation. At the present time we are covering deficits that are very large because of transportation, and I think that since we are spending a lot of money for actually nothing, we might say, we could spend a

few millions more and put it into research and probably eliminate the deficit in the long run.

Mrs. RIDEOUT: Mr. Chairman, it is always a privilege for me as a member of this Committee to identify myself as a former employee of Canadian National Railways. I compliment you, sir, on the presentation you made this morning and on the progress you have made in passenger traffic business. Mr. Gordon, I am going to refer to a meeting I had with you in Montreal regarding the city of Moncton and your CN station there. I noted too in your presentation that the red, white and blue fare program was started in the maritime area, I like to think that because of the success you had and the increase in your passenger sales you offered it across Canada. If my memory serves me correctly, sir, it was just about a year, the end of June, that you and your directors met in Halifax and you announced that you would be enlarging the station in Moncton. This is one year later and I have not seen any sign of any change. I do see the need for it every time I am there, and I am wondering if you would mind sort of giving me a little progress report on any changes.

The CHAIRMAN: Excuse me, Mr. Gordon, I hope this station deals with the passenger traffic that he is talking about.

Mrs. RIDEOUT: Passengers. Yes, Mr. Chairman, it does.

The CHAIRMAN: All right, thank you.

Mr. GORDON: Thank you for your kind remarks, Mrs. Rideout. I hope you are not putting me on the spot for the purpose of having me provide a new alibi because that is not what I have in mind. The fact is that following our talks, as you know, we did state that we had in mind enlarging the station and steps were taken immediately in that connection. With the target developer, however, who is developing all that area, and who is also responsible for the construction of the station, we found it very difficult to reach an understanding on how it can be done and mix it with the former agreement, and that has been further complicated by reason of the resolution of the city council, I have just forgotten how long ago, four, five, six months ago, in which it was indicated through the press that representations could be expected along the lines of moving our main line to bypass the city of Moncton completely.

Now, we have had no official discussions with the city on that, and I do not know how serious it is, but undoubtedly that has an effect upon the developer in terms of his own development and makes it a little more difficult for us to reach an understanding. We have had intensive discussions on it and we are doing our best to try to get an agreement there as to how we can get on. In the meantime, of course, like everything else, costs have increased considerably and there is a further hesitation in that connection, not as far as the railway is concerned, but as far as the developer is concerned. And if we cannot work out that then we have to tackle this directly in some way but it is an awkward situation because adding a piece on to the existing station by ourselves would obviously complicate the agreement that we have in the form of a lease from the private developer who really owns the station building. The matter is live but it is very difficult.

Mrs. RIDEOUT: At the time that you built the station I presume you did not intend to enlarge it but that the increase in the passenger traffic has made that obvious.

Mr. GORDON: And added to that, the cogent representations of Mrs. Rideout.

Mrs. RIDEOUT: Thanks a lot.

Mr. ALLMAND: Mr. Gordon, would you tell me whether you have made any special study to determine the potential demands of passenger services next year, 1967, our centennial year and whether you will be required to have special trains, special services to bring the people from the east and from the west to the centre of Canada. We understand that there will be a greater demand next year and it may be necessary to have services to serve these people. Have you made any study on this matter?

Mr. GORDON: Yes, indeed. As a matter of fact, that development right there we hope will be ready in time to handle centennial traffic, but, of course, that will be concentrated in Montreal and Toronto. Mr. Richer, you have been looking into this general question, would you make some comment on it.

Mr. RICHER: Mr. Allmand, the only comment we make is that we have been busily planning for 1967 in view of the centennial year and the Expo also, but we cannot possibly add a great deal of capacity to the fleet just because there is an abnormal year. I mean the heavy investment required in the railroad transportation business must make your investment completely compatible with the long term trend. We are not right now ready to disclose our full planning in detail for 1967, but you can rest assured that it is being worked at very actively right now.

Mr. ALLMAND: I was wondering if the CNR ever made a study to determine whether progressive and good passenger service had any effect on winning business for the freight side. In other words, does passenger service which is more evident to the general public have any public relations value in bringing greater revenues to freight?

Mr. GORDON: We are very definitely of the opinion, both on psychological grounds and otherwise, that a good passenger service does help us with our freight business. Indeed, we have had specific examples where an aggrieved patron of our passenger business will find it reflected in his attitude towards his freight business. Now, I have used this term, and I think Mr. MacMillan has too, that the passenger business is a relatively small part of our total business. It runs about what, 8 or 9 per cent?

Mr. MACMILLAN: Yes, normally.

Mr. GORDON: Of our total revenue. So at first blush you might say that we are putting far too much effort into something that accrues only 8 or 9 per cent of our total revenue, but we have always recognized that the passenger service is in effect, our show window; it is the show window of our service, and if we can satisfy people in our passenger business, they will talk more about that approvingly than they will in the terms of the freight business. Now, added to that is the fact that in developing an effective passenger business and doing the kind of things that we have described today we improve our facilities themselves which enables us to produce faster freight and things of that kind. Now, this is very much in your department, Mr. MacMillan; perhaps you might make it a little more clear what I am trying to say.

Mr. MACMILLAN: Well, the questioning began on the note of whether we had ever made any studies to ascertain this. We have tried to make those studies but we do not really know how to make the studies, how we can prove it. In the industry this has become regarded as largely a question of personal

opinion. Personal opinion, of course, is affected by what we are told orally and what we read in communications which we receive. As Mr. Gordon said, we are firmly of the opinion that it does influence business. I feel that it influences freight business in a very material manner. I think it also influences our communications business and our hotel business. It influences the volume of all the services which we provide, but unfortunately we cannot measure it.

Mr. ALLMAND: One final question, Mr. Chairman; I was wondering if there was any future for this turbotrain on transcontinental service, maybe after you have tested it on the Montreal-Toronto run?

Mr. GORDON: Well, that is looking into the future. Norman, you can see further than I can.

Mr. MACMILLAN: I think this. I think that the conventional train, as we know it today, in the fullness of time must give way to something which is more modern and which can be operated more economically. This train we think is the beginning of that era, and that it is the forerunner of other types of trains, and other types of equipment which will in the fullness of time replace all conventional equipment as we know it today. There is no reason why this train cannot be operated on the main line in sleeper service and in other services, but initially we will confine it to day service.

Mr. GORDON: You understand, of course, that this kind of train cannot be mixed with any of our other type of equipment. It is a specialized unit and can only be used in itself; it cannot hook on anything else.

Mr. REID: Mr. Chairman, I would like to ask a few questions on the revenue side. Mr. Gordon, could you, or one of your officials, tell me what is deficit presently per passenger mile? In other words, you have a certain revenue per passenger mile coming in and you have a deficit of \$43 million—

Mr. GORDON: That question could be answered in half a dozen different ways. We could give a global answer and we could a specific answer in regard to pieces of it. How would you answer it, Dr. Bandeen?

Mr. BANDEEN: I would say that we really have not looked at it in that fashion. It can be calculated easily enough, because we have both the figures that are required and it would just require a division of the two. I do not have the figures right here.

Mr. REID: Well, that is fine. Perhaps I could have them at some other time.

Mr. GORDON: It is a simple mathematical problem and quite meaningless in its result. I mean you could take the passenger train miles and divide it into the revenue and there you are. A ten year old child would probably get it wrong but he would not after I had corrected him.

Mr. REID: Fine. Now, am I to understand that the basic thrust of your presentation is that you will be using all these modern marketing methods to produce a break even point in your passenger operations? This is your goal. Do you expect that this can be made a profitable passenger service?

Mr. GORDON: We said at least a break even point; depending on the over-all market we have said that we are prepared to guess that by 1971 we will, all things considered, have reached an area of a break even point. Now, it may be that, depending on the growth of the country, depending on the growth of certain markets, improved technology and so forth, we can make our passenger business quite profitable in terms of the demands of the public. We do not

intend to just stop at a point of break even. But our first objective is break even.

Mr. REID: Now, one of the things which has come up periodically in these hearings is that passenger service is particularly labour intensive. If I understand aright, in this new turbotrain you are going to be operating it on sort of an airline basis with a minimum of labour both operating it and as stewards and things of this nature. What is the present labour component in the cost of operating the present day transcontinental service? I gather that this is one of the aspects of your operation which is not going to go down, but which is going to go up, or will it go down with improvements in—

Mr. GORDON: I am losing the thread of your question really. I will try this answer and see if it meets it. In connection with this new train, it has been referred to as an experimental train. It is not experimental in terms of its physical capacity. That has been pretty well tested out and we are confident that the actual operation of the train will be successful. It is true, however, that related with it will have to be agreements with our labour force in terms of the operational crew that will be recognized as being adequate, and indeed, Mr. MacMillan has had a series of discussions with the labour unions affected and we have put our cards very, very straightforwardly on the table; that with the co-operation of labour this train can be a success, and probably will be expanded. But we are very much in the discussion stage in that respect.

It is certainly true that the labour cost of the conventional train, the Super that you mentioned, is very much higher than the labour costs on this train. Now would you take it from there Mr. MacMillan.

Mr. MACMILLAN: Yes. With regard to the turbotrain, as the president has said, I have been conducting discussions with the running trades over a period of many months. These discussions have been in an excellent atmosphere and I think that out of them will emerge a pattern with which we will be satisfied that we have reduced or varied the running trades requirements to a point which is required for the economical operation of the train.

You may recall that I mentioned at one point in describing this train that it has no diner. The dining car will come off. Now, this is in itself a change in duties required of personnel on the train and we think it will have an economic advantage. Transcontinental trains, not only have one diner but they have in some instances, two diners and two diners and a lunch car and various other types of feeding equipment. We shall have to maintain feeding opportunities throughout those trains on the long journeys, but we are doing a great deal of research on how best to perform this obligation as economically as possible, and we think we are making progress in this field, too.

Mr. REID: Would you say, then Mr. MacMillan, that in your negotiations with the unions concerned with the new turbotrain you are following the recommendations of Mr. Justice Freedman?

Mr. MACMILLAN: Well, the recommendations—

The CHAIRMAN: Excuse me, Mr. MacMillan, I think we are getting a little far afield in labour-management relations as far as union negotiations are concerned, Mr. Reid.

Mr. REID: Fine.

Mr. DEACHMAN: I would like to return, Mr. Chairman, to some questions that were asked earlier about passenger service in 1967, and I wonder whether or not Canadian National has done any field study or survey to determine what the anticipated movement of people will be in Canada in 1967 especially during the tourist year. I am talking about movement as far west as the west coast, and as far east as the east coast. I realize that a substantial contribution is being made by the "Rapido" train but I wonder what C.N. is doing beyond that to analyse anticipated passenger movement during 1967, and to meet that demand.

Mr. GORDON: Well, we have been in touch with the Expo authorities and have examined with them the various estimates in respect of the movement of people. But no one can be definite as to how the people are going to move; the percentage of the movement by their own cars and by airplane and any other form that may be. Therefore, the only sensible contribution that the railway can make is to look carefully at our fleet and see in what way we can maximize the accommodation that we have available. It would not be sensible in an economic basis for us to purchase equipment solely for the purpose of servicing the centennial year. But as the demand comes upon us we will do our best, either with borrowing equipment; we might be able to borrow more from the United States and things of that kind. But we will maximize our availability in the particular areas as we are able to appreciate the demand. That is about the best we can do, I think.

Mr. DEACHMAN: Do you know of any—

The CHAIRMAN: Mr. MacMillan has a further comment on this.

Mr. MACMILLAN: Might I just add to what Mr. Gordon has said that this subject has been the reason for a substantial number of meetings which have been convened by the Department of Transport, the Centennial Commission and the Expo group. To these meetings have been invited all arms of transportation; the railways, the airlines, the bus lines, and there have been estimates prepared of the travel volume to be anticipated during 1967. The gross has been apportioned between the various agencies to make an appraisal of their ability to handle the volume which is anticipated. As someone said earlier, it was in part in realization of this requirement that we have accelerated the delivery of this equipment so that it does two things. It not only enables us to handle a larger volume between Toronto and Montreal, very appreciably larger because this train will make three round trips a day. There will be three trips from each end per day and in addition to that we shall maintain our present services other than the "Rapido". So that we will have quite substantially more accommodation available, and we shall liberate the equipment which is now on the "Rapido" making it available for other services.

Now, in addition to that, in our planning as you may have remembered from the written brief we gave you, there is a body of our equipment which is over thirty, thirty-five, years of age and we are taking steps to keep this in service beyond the 1967 period, so that we will have it to fall back upon as the need arises. We think we are quite well abreast of this problem, or the problem which will be encountered in 1967, and we are taking now such steps as we feel are required to enable us to discharge our share of the burden.

Mr. DEACHMAN: Sir, do you anticipate from what you saw of assessments of traffic movement during 1967, that facilities are going to be jammed to the point where people cannot be accommodated? I am talking about the whole

movement of traffic by all types of carriers; or do you anticipate the Canadian public carriers are going to be able to carry traffic in 1967?

Mr. GORDON: Experience has always been that the apprehension in respect of congestion is always much higher than the realization. One tends to think about numbers and get appalled with them. It has been proven in other affairs throughout that it is quite astonishing how human beings are able to accommodate themselves and get what they want to get, both in regard to travel accommodation and living accommodation. I have had quite a number of discussions on this and I do not want to speak of Expo officials, but I think it can be said as a general thing, that we should not be overly apprehensive about it. All the agencies interested, as Mr. MacMillan told you, have been very actively examining the situation and while there has not been much publicity about it there has been a lot of planning and a lot of discussion. So that our facilities of all kinds in the country will be increased to the maximum possible extent.

Mr. PASCOE: Mr. Chairman, I want to join with the others in saying how pleased we are to see Mr. Gordon here and looking so fit. I also want to commend the CNR on this effective presentation of their whole policy in regard to passenger service. When I use that word effective perhaps I can return to effective demand. That has been mentioned here before, but in the hearings we have had so far, effective demand has always been linked with the public supplying the effective demand. I am very impressed with your statement here on page 4, "Effective demand, however, will come about only with an effective effort and effective service." I want to emphasize that, because I think that is the proper policy.

Just a few questions here in regard to your presentation today: The first one is on page 1 where you say, "passengers took an average journey of 100.5 miles". Now, that 100.5 miles is quite an easy automobile journey so would you say this would indicate that the railways are competing to a certain extent with private passenger travel?

Mr. GORDON: Well, I can give you some specific information on that. It is referred to in the document later on about the research work going on in the United States, and the \$90 million which has been allocated for that purpose and rail travel has been given the first priority. Now they have reached a tentative conclusion already that railway passenger travel, railway movement up to 200 miles is where the railway can function best. When it gets over the 200 miles and gets into 500, 600 miles, and so forth, that the other modes of transportation have perhaps an advantage in that respect, and therefore, the railways should really concentrate their attention on providing rapid comfortable service up to the 200 mile limit.

Mr. PASCOE: Does that not indicate that you are thinking of cutting down on transcontinental service? Could I ask what purpose do you have in transcontinental? What—

Mr. GORDON: No.

The CHAIRMAN: Excuse me, Mr. Pascoe. Would you let Mr. Gordon answer that.

Mr. PASCOE: What service do you have on the transcontinental now? How many trains?

Mr. MACMILLAN: Three trains a day. We have two trains, one train which originates in both Montreal and Toronto and is put together at Capreol and goes west from there and then we have another train originating in Toronto through Capreol to Vancouver and the third train through Capreol to Vancouver.

Mr. PASCOE: All year round?

Mr. MACMILLAN: No. What we do is in the wintertime we operate the "Super" which originates in Montreal with the section from Toronto combined at Capreol and goes west, as a consolidated train, and the "Panorama" which does exactly the same thing. It originates in Montreal, is combined at Capreol with the Toronto section and goes west.

Mr. PASCOE: We have heard a great deal about MacPherson's report on passenger service and sometimes it is indicated that this report took a very negative view on passenger service. I am interested where you say "it was not asked," that is, the Commission, "was not asked by its terms of reference to examine passenger train service specifically," so it made no specific direction in regard to passenger service.

Mr. GORDON: Well, we used to use that language that while it did not refer to passenger train service specifically, they were directed to consider, as we quote there, the "obligations and limitations imposed upon railways by law for reasons of public policy and what can and should be done to ensure a more equitable distribution of any burden which may be found to result therefrom, and also the possibilities of achieving more economical and efficient railway transportation." Now, with these directions the commission took it to be their duty to examine all services of the railway and they did indeed make a very intensive analysis of the passenger service, and expressed views on it.

Mr. PASCOE: Was it a fair question to ask if you were pretty well following their report in this area?

Mr. GORDON: Yes, we think we are wholly within the meaning or the intention of the MacPherson Commission report. As you will notice at the bottom of that page, and I think I may as well read it. This is our view. "It was not suggested by the MacPherson Commission that the railways should abandon rail passenger services altogether; nor was there any suggestion that there was no exploitable market for certain services; nor was it found that all rail services were unprofitable. The Commission merely said that the railways should be given a greater freedom to abandon uneconomic services, but if some other authority considers that such services should be continued then there should be monetary support."

Now our policy is enunciated as shown to you in this morning's presentation. It is fully within the four corners of that statement by the Commission, in our opinion.

Mr. PASCOE: On page 8 you talk about the daily and seasonal fluctuation in passenger travel. Do you have a policy of special rates and special schedules for tourist parties, or any special parties at all?

Mr. GORDON: Do you want to answer, Mr. Richer? Would you repeat the question?

Mr. PASCOE: Do you have special rates for tourist parties?

Mr. RICHER: Yes. Chartered parties.

Mr. PASCOE: When you say the daily fluctuations in travel I was asking if you have special rates for tourist parties during the summer.

Mr. RICHER: We have special rates for groups. We are reviewing this matter of special discounts for groups right now, and this is one of the aspects of our marketing approach. But we have now special discounts for groups.

Mr. GORDON: We even make it cheaper for a wife to travel with her own husband, do we not?

The CHAIRMAN: I do not know if that is good or bad.

Mr. PASCOE: One more question; on page 15 you talk about the possibility of highway carriers. I suppose that is buses providing essential feeder service to rail truck line operations.

Mr. GORDON: Yes.

Mr. PASCOE: Do you consider the possibility of perhaps having Budd cars or railiners on these lines?

Mr. GORDON: Well we have that already but what this reference is, in a few words, that we are making studies to examine points at which the longer possible distance might be done by rail, and arriving at a certain point we would have an agreement with a bus operator to take on the finishing part of the run. We are trying to make arrangements with various types of bus operators to pick our passengers up at certain points and complete it where it would not be economical for us to do it.

Mr. PASCOE: Just one more follow up question to this: I am thinking of my city of Moose Jaw particularly which has very poor CPR service now. Would there be a possibility of the CN, which comes in there, having a Budd car or a dayliner car to go to perhaps Melville or Saskatoon to feed the main line?

Mr. GORDON: Well, I would prefer not to get drawn into a discussion as to what railway has the obligation. We have enough on our plate right now looking after what we think are our obligations in respect of our own services. I certainly would not want to give an undertaking that we will pick up the burden, so to speak, that ought to be done by other people.

Mr. PASCOE: I do not mean a burden, I mean there is a potential there. If you saw a potential, would you be interested?

Mr. GORDON: Well. When you get it analysed—potential, of course, does not mean anything. It could be a potential increase in the burden.

Mr. PASCOE: Just one more question, Mr. Chairman. Mr. Gordon talked about a lot of this being forecast in which he could not, like inflation, could not take full account of it. In your forecast, have you taken account of the population growth in Canada?

Mr. GORDON: Oh, yes. Now, on that general question perhaps Dr. Bandeen could amplify what I would have to say and refer to me afterwards. I should have checked this with you, Dr. Bandeen. In our forecasts, in our estimates, we have used every form of analysis that we think is appropriate and we have, on the basis of historical trends, and so forth and from forecasts made in regard to population trends, taken all these things into account in what might be said to cover normal expectations. We have included in our forecasts all what might be called normal expectations, but we have not tried to set ourselves up in trying to guess the extremes. Would that be a fair statement?

Mr. BANDEEN: Yes, that is perfectly correct.

Mr. CANTELON: A supplementary question, Mr. Chairman, with respect to something that Mr. Pascoe asked.

The CHAIRMAN: One supplementary, Mr. Cantelon.

Mr. CANTELON: That is all I wanted to ask. I was interested in this statement that the normal rail trip was about a hundred and some odd miles. I wonder if this has a relationship to the speed at which your trains travel now which I suppose would be somewhere round an average of 60 miles. I wondered if when you get new types of trains which travel quite a lot faster rate of speed.

Mr. GORDON: That is an arithmetical figure and perhaps, Mr. Richer, you could answer.

Mr. RICHER: I would like to talk about this 100.5 mile average. This is an average of all journeys taken by all passengers travelling on CN. As you appreciate, there are a lot of people who travel very short distances, the on and off, on local trains; they bring down the average considerably. The competitive distances of trains is much more than 100 miles, much more than the average, because it takes very, very many long term travellers of more than 200, 300, and 400 miles to compensate for all these on and off local passengers that may go only 10 or 15 or 20 miles from one city to the other.

Mr. CANTELON: Might I then have a figure of what you consider your competitive distance?

Mr. RICHER: Well, the competitive distance is certainly not the average distance but it is very flexible. It depends on the conditions and the service offered and the price of the service offered and the density of population in that particular area. We have reorganized the system, our complete orientation to search these markets in a very sophisticated fashion so that we discover where there is really a need for service and a demand for such service.

Mr. CANTELON: A supplementary question.

The CHAIRMAN: The supplementary can wait, Mr. Cantelon. Mr. Andras.

Mr. ANDRAS: Mr. Chairman, I wish to add my compliments too on the positive approach you are taking in this presentation. With respect to these projects wherein you hope to reduce and in 1971 eliminate the passenger deficit, do you feel they are realizable if you are, say your chief competitor the C.P.R. adopted the same positive progressive approach to passenger service. In other words, if they took this line would there be enough business for two and still accomplish this elimination of deficit?

Mr. GORDON: I made up my mind before coming to this Committee to follow what I think is a well recognized rule of business; that I neither make suggestions to my competitor nor do I criticize him.

Mr. ANDRAS: Well, I am not trying to trap you into either one. I am simply trying to get at a point. Is there enough business to support a break even or profitable passenger service?

Mr. GORDON: Well, that would depend on an analysis of the areas which they serve and I could not comment on that. I do not know.

Mr. ANDRAS: You mean because they are different areas, different groups.

Mr. GORDON: They are different areas. They are different situations, and they are different people in the railways too.

Mr. ANDRAS: I do not know where I ended up on that one.

Now, I was interested in page 12, at the top of the page of your submission of last night, the acquisition of 18 Budd railiners. As I read this, and immediately below, you purchased and completed renovation of 51 units of late model equipment, but the Budd railiners, were they new equipment?

Mr. GORDON: No, they were second hand.

Mr. ANDRAS: They were second hand equipment.

Mr. GORDON: By the way, perhaps we should make a comment on that. It is not that I doubt here, but the Budd railiner we are now talking about is a very different animal from what it was ten years ago. We have really gone through this and recognized that the Budd car of ten years ago was a most uncomfortable street car type of equipment. We have very substantially improved them by taking out all these, I do not know if it is all finished yet, I hope it is, is it?

Mr. MACMILLAN: Oh, yes, it is.

Mr. GORDON: And we have put in a much more comfortable type of seat. In fact, we have considered the comfort of the passenger which is a revolutionary idea in the passenger business.

Mr. ANDRAS: But you yourself have done the renovations and redesign of older equipment?

Mr. GORDON: Yes, we have done the work in our shops. Subject to this, in regard to seats for example, we would buy them as a component part but the installation and the renovation of the car has been done in our own shops.

Mr. ANDRAS: Would more such Budd railiners be available for purchase now? Are there any new ones being manufactured today?

Mr. GORDON: Oh, we could get railiners if we wanted to place an order for them, yes.

Mr. ANDRAS: New ones?

Mr. GORDON: Yes. That is true, is it not?

Mr. MACMILLAN: Yes, that is true, There have been no new ones built for some years but we could buy new Budds, were we to order them. They are built by the Budd company in the United States.

Mr. ANDRAS: I might say that Can. Car. in Fort William would be very interested in discussing this with you too, because I think they could produce them.

Mr. GORDON: I doubt if they might; not the Budd.

Mr. ANDRAS: Not the Budd as a name, but a comparable unit; I believe, they are capable of producing.

Mr. GORDON: Not the Budd. They are protected by a various series of patents. They may be in trouble in that respect.

Mr. ANDRAS: Well, I got my plug in for Can. Car., anyway.

Mr. GORDON: We are always willing to talk, if they want to make a proposal. After all if they want to sell something, it is up to them to make the approach. You might tell them that.

Mr. ANDRAS: I happened to talk to one of the officials within the last four days, and I know they are interested.

The CHAIRMAN: Back to passenger service.

Mr. ANDRAS: That is passenger service, Mr. Chairman, of the best possible type.

In your costing, do you use in the CN the same approach, what is known as the regression analysis method, to determine your cost of passenger service?

Mr. BANDEEN: Yes, we do use it. I would like to get that in the proper proportion, however. I believe, in reading the evidence, that Mr. Sinclair did in one of his recent talks to the Committee indicate that there was some, only 13 per cent, I believe, on the CPR total cost analysed by the use of multiple regression, but it is a similar situation in our own case. In other words, the great majority of the costs are determinable directly, and there is no need to apply any type of statistical measure. But in the cases where it is not possible to find the cost directly, this is a very convenient, and we feel, accurate device for arriving at the cost.

Mr. ANDRAS: And you do use it?

Mr. BANDEEN: Oh, yes, we use it very much.

Mr. DEACHMAN: Are you regressing the same data as the CPR?

Mr. BANDEEN: Essentially, yes. Our methods do not differ. There are some differences in the costs that are produced because the two railways have different characteristics and we have certain different maintenance policies, and this, as you would expect, is reflected in the cost characteristics but we apply the same principles as the CPR using our own data, of course.

Mr. ANDRAS: In your presentation today and in this brief you make reference to two types of services for financial reasons. You refer to one as the non-profitable services in which, according to the terms of the MacPherson report recommendations, you will be looking for public assistance financially? And then, you have what you term as profitable and potentially profitable services; not today, but at some convenient date, would it be possible for this Committee to get a more detailed breakdown of that, identifying the routes or the services that you classify in these two categories.

Mr. GORDON: Yes, it would be possible, but I would prefer very much not to be asked to do it, and I will tell you why.

We have various studies under way dealing with the particular points that you have in mind. If we were to produce those now, it would I think create a lot of unnecessary apprehension in various areas until we have completed our studies. I found in practice that once we name any particular area that we are studying, then everybody assumes that whatever is going to happen we are going to take off the service. Now, that just is not so. Because our first approach is to study it to see which nonprofitable operation can be made profitable. That is our first approach, to see what we can do about it, and there are a lot of things that we can do, and sometimes with the co-operation of the community itself, there are things we can do. So that I would ask you very earnestly not to insist upon the items that we have under study. In fact, if you press me, I might be tempted to say that the study was dropped yesterday. But we do in the positive cases and they are before the Board of Transport and at the Board of Transport, as you know, all interested parties are invited to discuss the matter. There is all sorts of advance notice given. We do not even go to the Board of Transport without having had earnest discussions with the communities affected in advance.

Mr. ANDRAS: Well, may I hope, Mr. Gordon, that the Canadian National line that is not now in passenger service, that does not now exist through Fort William-Port Arthur might be included in a re-study as to its possible profitability.

Mr. GORDON: You must remember, of course, Mr. Andras, that when we study these things and eventually reach a conclusion the rail passenger service should be abandoned, we have to take in, and we do take in very much, the question of alternative modes of transportation; what is available. That is the first question the Board of Transport Commissioners will ask us. It is not always the recognition of our own loss, but they will certainly inquire what alternative there is, and we have to provide information on that, whether there is bus service, or good highway, or what have you. We have to demonstrate that to the board.

An hon. MEMBER: The CPR?

Mr. ANDRAS: Well, the CPR exists there but with their fares going up so rapidly there is a question whether this is an adequate alternative service to the lakehead.

Now, I was very interested and I do not know whether this came up while I was out of the room, more details on your proposed improvements in reservation services. We have heard a great deal about the tremendous complications and difficulties in getting this under control, related to railway passenger service. Do I interpret this as eventually your having connecting electronic communication devices at all your major and even some of your minor ports across Canada, similar to an air—

Mr. GORDON: Yes; that is the intention. Now, there is admittedly a very definite, very difficult technical problem in regard to railway reservation services similar to what is done in the air lines, because the air lines only have to service half a dozen different points, but we have now had a study come up on the reservations, as we have said, and we have got them, and we are quite satisfied that we can produce a reservation service through computer, in the first instance, probably in something like 38 points, and also a procedure for intermediate points that would be associated with it; also again, that we can enlarge it and very much improve it, when we complete it, when the computer technique itself will give us a larger type of computing device. We are quite certain we can do it, and our technical people have assured me that it is not an impossibility.

Mr. BELL (*Saint John-Albert*): Well, Mr. Chairman, I want to explore a couple of points that Mr. Andras touched on but first may I say it is a pleasure to be back on the railway committee for the appearance of Mr. Gordon and the CNR officials, after an absence of a few years. I see Mr. Byrne and Mr. Howe (*Wellington-Huron*) there. We recall many bitter battles between Mr. Gordon and members of the Committee in the past, and I think it is a tribute of some kind to Mr. Gordon that he is looking so well and vigorous towards the future, and the members that fought with him for some strange reason have all fallen by the wayside.

I, first of all, want to ask about this matter of losses and what would be the net savings to the company. For example, your projection this year is a loss of around \$40 million in the passenger service, and then you have taken this forward again in a projection basis to 1971, when you say that this will break

even. The passenger service might possibly show a profit at that time. How much of a net savings would there be under this system of retrogression analysis you are using? Would this be on the balance sheet? I am thinking for example, that the CPR told us that I think the "Dominion" was shown as a loss of about \$6 million but less than \$3 million would be saved with the discontinuance of it. You follow the same method, so can you relate this \$40 million that we may save by 1971, to your final balance sheet?

Mr. MACMILLAN: If you take 1966, we think \$2.1 million would be the saving if the passenger services were completely obliterated.

Mr. BELL (*Saint John-Albert*): In 1966. Take 1971, for example, if it was possible to break even, how much of a net savings would this show in the total losses of the company?

Mr. GORDON: I think I see your question. You are talking from the standpoint of an over-all deficit.

Mr. BELL (*Saint John-Albert*): Yes.

Mr. GORDON: As now reported in our 1965 report.

Mr. BELL (*Saint John-Albert*): Yes.

Mr. GORDON: And to what extent would that deficit be reduced, if we were able to accomplish what we have said. Well, it would be reduced by the amount of the deficit that we show here, is going to be eliminated. In other words, there is a deficit forecast for 1966 or \$39.5 million. In 1971, if we are successful in breaking even, then that \$39.5 million would apply to any over-all deficit or profit, as the case may be.

Mr. BELL (*Saint John-Albert*): On their total balance sheet?

Mr. GORDON: Yes. If the company balance sheet were at a profit over-all in 1971, then \$39.5 million would be added to the profit. If we are still at a loss situation, which I hope we would not be in 1971, let us say, that the over-all deficit was \$40 million, then to the extent that we were successful here we would have half a million dollars deficit. It is direct action, in other words, on the net results of the company over-all.

Mr. BELL (*Saint John-Albert*): Well, in this projection that you showed us on the slide, what element of capitalization or the capital investment would be in this?

Mr. GORDON: The cost of the capital investment is included in the deficit.

Mr. MACMILLAN: The long term expenditure, as I recall on the last slide, was shown as being \$42 million a year. That was 1971. The net profit after short term expense was shown as \$42 million, so that we would have enough new dollars to bear the burden of the long term capital cost and other long term costs which were, as you may remember, terminals and items of expense of that nature.

Mr. BELL (*Saint John-Albert*): There is no element of subsidy?

Mr. MACMILLAN: None whatever, with the exception that you recall the first line on that 1971 chart showed the non-profitable line as having had a deficit of \$10 million and we would hope that we would obtain \$10 million worth of relief in respect of those operations. To that extent it might be regarded as a subsidy.

Mr. BELL (*Saint John-Albert*): Well, I would just like to refer to one of the contentions the CPR made in their appearance, and I appreciate that you may not want to get involved in direct criticism or comment on it, but there is no doubt about it the two railways are going in different directions with respect to passenger service and we have a responsibility to try and sort this out some day, in our final report.

Mr. Sinclair and other officials of the CPR made a great deal out of this misallocation of resources. They said, and I am paraphrasing very generally, that they had given what they considered a fair trial to increase passenger service and the potential was not there, and these phrases were invoked, I think for the first time, this "effective demand" business and I am wondering if Mr. Gordon would like to take the opportunity in a general way of justifying, and there are references in the brief to it, within the terms of the MacPerson report and the national interest that we all have in our hearts, how this money which belongs to the Canadian taxpayer is being spent in an entirely different direction from what the CPR feels is their responsibility.

Mr. GORDON: Well, we get into a question of semantics, you know, that could delay us quite a long time. I think I can refer you to page 4 again. Our feeling is that when you talk about misallocation of resources, it depends on what point of view you are expressing. It would be in our opinion a misallocation of resources if the passenger carrying potential of the railway, and needed by the country, in terms of its growth potential which we think is so, disappears, then I think that would be a misallocation of resources too. But it is a question of what is the case you are trying to make really in terms of that kind of a phrase. I do not like the phrase myself. Dr. Bandeen will give you a more precise answer in that respect but I think you will agree with me that a misallocation of resources is a kind of a double-barrelled word, is it not?

Mr. BANDEEN: Yes, it is but if the situation prevails in 1971, as we outlined it, and we think it will, in which our passenger business is paying fully for all the resources that are put into it and the people are willing to pay for this at the price we are charging, covers our capital cost, then this can in no way that I know of be construed as a misallocation of resources. However, if we were still running at a loss at that time, and it was a heavy loss, you could say that perhaps there was a better use for the resources, but this is a determination that would have to be made as a public policy consideration, I would think. But if we are in a position where we are covering all our costs I do not see how in any way this could be construed as a misallocation of resources.

Just while I am on the subject of our costs, and referring if I could to an earlier question of yours, Mr. Bell, I want to make it crystal clear that when we divide the cost and the short term cost and the long term avoidable costs we are in no way saying that the long term avoidable costs are not real costs, and every one of those dollars appears in our annual statement and appears as part of our operating expenses for the year. All we are saying here is that we could not get out of them immediately. There are things that are built in that would make it non-flexible but these all appear as part of our operating costs, all appear in our deficit or our profit in a year. Similarly in 1971, the longer term ones appear but by that time our revenue will have grown to the point where it is equal to the cost.

Mr. ALLMAND: Do you think that Canadians are being extravagant in particular in trying to maintain two national railroads?

Mr. GORDON: Personally? Do I think that personally?

Mr. ALLMAND: Yes.

Mr. GORDON: No. I do not.

The CHAIRMAN: I have a supplementary I wish to draw to mind, on this misallocation of resources. I am thinking of railway transportation provided by a public transport system and by a private transport system. Does this misallocation of resources depend, as you say Mr. Gordon, on whose resources you are spending, the private sector or the public sector?

Mr. GORDON: Perhaps I might say this, Mr. Chairman. I would admit this at once in terms of an argument on the meaning of the term. It could be argued that the money we apply to the passenger business could be put into other efforts with better results. Now, this may be true of the CPR, I do not know. It may very well be that the CPR can prove their case, that taking the same effort and money in other directions they get more out of it. Well, that is a private enterprise point of view and they are quite justified in it.

Mr. BELL (*Saint John-Albert*): Perhaps it might be fair to say, then, that you feel that there are a certain type of person in Canada, whether it is an older citizen or perhaps a pensioner and the like who still needs and has the right to ask for railway passenger service and not be strictly directed to another means of transportation. Is that a fair assessment?

Mr. MACMILLAN: The answer is the density of travel on our trains today. They are all filled virtually. Toronto-Montreal, it is very difficult to get space on the day trains or the night trains. Transcontinental trains are very well patronized. They are heavy. Montreal to Ottawa is heavy. Montreal-Halifax, all movements east of Montreal, through Moncton to Halifax are densely patronized.

Mr. BELL (*Saint John-Albert*): Well, how does this tie in, Mr. Gordon, with the MacPherson Commission recommendation? I recall you were fairly critical of certain aspects of the report at the time it was produced, and again I am not pinning you down and I have forgotten whether it was references to passenger service, but have you changed your mind about the MacPherson report? I know you have justified it to a certain extent here. They recommended or the inference was in the report, that there was a bit of pessimism about the future of passenger service.

Mr. GORDON: Well, Mr. Bell, you mentioned a little earlier that you had seen me at previous committees where I engaged in a fight with a member. I can clear that up by saying I was never in a fight, all I was doing was clearing up misunderstandings. This is typical of it here because I do not recall that at any time I made a specific criticism of the MacPherson Commission report. It may have been something out of context in the course of these hearings but I have always approved the report as being a fine piece of work, as showing the kind of recommendations that ought to be followed. As I say, if you read the report carefully, there is really no difference in the theory of the passenger business as between ourselves and the CPR. It is merely a matter of methods.

● (12.20 p.m.)

Mr. BELL (*Saint John-Albert*): One final question, Mr. Chairman. Do you agree that with respect to the matter of general policy and what was in the

MacPherson report about the national interest and the other contentions that have been put forward by various briefs here that the answer might be some sort of an over-all transportation authority that would decide what minimum passenger services are necessary; and that there be a division of responsibility in some way between the railways, and over-all some rationalization authority as I say that could administer a subsidy that the railways could earn in a fair way

Mr. GORDON: Well, I am a very innocent fellow, but I do recognize a political question when I hear one. And I do not think that it is for me to comment upon a one transportation authority.

Mr. BELL (*Saint John-Albert*): Well, here is what I am leading up to. Are you worried about the CNR becoming more oriented towards passenger policy and seemingly being less interested in freight? Let me put it this way, from the appearance, it seems to me that the CPR are doing away with passenger responsibilities and becoming more involved in the freight. Would this not be disastrous for the company?

Mr. GORDON: Well, it is just not true that the CNR is any less interested in freight. We are saying that we can make of our passenger business a profitable enterprise in due course and give a service to the public which we feel perhaps more of a duty than the CPR. I do not know, I say we feel that we have a duty to do that. Now, certainly I would deny at once, and emphasize it, that the CNR is in any way less interested in freight. On the contrary, we are doing everything possible to maximize our freight business and by reason of our excellent service, and so forth, we are succeeding.

Mr. BELL (*Saint John-Albert*): Well, certainly it would be fairer to have this authority that I suggest, that is, in the latter part of my question, administering the responsibilities, passengerwise for both railways.

Mr. GORDON: That could only arise if the authority were to take specific instances and rule that notwithstanding it was an uneconomic enterprise, the passenger service should be continued. Then they follow through on the MacPherson recommendations and recommend a payment out of the public purse for that unprofitable service. This we have covered in our brief.

Mr. BELL (*Saint John-Albert*): I do not have any more questions but I just want to establish, Mr. Chairman, that when the annual report does come forward we still would be able to ask further questions about passenger service, passenger service is concerned.

The CHAIRMAN: Well, we are dealing with the report now as far as passenger service is concerned.

Mr. BELL (*Saint John-Albert*): But we are not actually passing the items though in a final way.

The CHAIRMAN: No. I do not think we will be restricted. I do not expect we will spend as much time on it as we are now but certainly we are dealing with the report. It is my intention to adjourn at one. If the questioning is completed by one or a few minutes after one we will not have to sit this afternoon, I have four more members here. Mr. MacEwan.

Mr. MACEWAN: Page 4, Mr. Chairman, I will read quickly "the foregoing policy" with regard to outlook "is founded on the fact that Canadian National does not believe that there has ceased or will cease to be an effective demand

for rail passenger facilities" first "in areas of high density population and in those other areas where indications are that the travel market will produce a level of revenue which would meet the cost of providing service." With regard to the second category and having regard to the figures and statistics given this morning on the slides, I wonder whether I could ask Mr. Gordon if the travel from Montreal and the service from Montreal to the maritimes would fit into this second category?

Mr. GORDON: That is a pretty general question.

Mr. Ralph VAUGHN (*Vice-President and Secretary of Canadian National Railways*): You are talking about the Ocean Limited, I presume.

Mr. MACEWAN: Yes.

Mr. VAUGHN: I think the Ocean Limited is not in the second category.

Mr. MACEWAN: It is not what—?

Mr. VAUGHN: It would be in the first category.

Mr. MACEWAN: High density population facilities and in those other areas of—"

Mr. VAUGHN: Well, it is not in that sense, but I thought you were really talking about the service, and if we are talking about the service the Montreal eastern trains, I think they can be regarded as profitable operation trains.

Mr. BANDEEN: But the question was whether it was high density and that would not be a high density area between Montreal and the maritimes. Montreal-Toronto is a high density area, but this is an area that could be a profitable passenger service.

Mr. MACEWAN: Last time I was on the Committee when Mr. Gordon appeared I asked him a question regarding the railiner service, Halifax to Sydney, and at that time I had some criticism voiced by people in regard to the fact that there were inadequate numbers of cars and that buses had to be used to transport passengers, for instance, from Glasgow to Truro. Now, I understand there has been marked improvement in that service and that there have been dining facilities added by way of a lunch counter. I wonder if you would want to give us some details on that.

Mr. RICHER: I would like to say that we did improve the service and if you would bear a bit with us we have a further plan for improvement in service in that area. This is pregnant now but we are not quite ready to give the details, but again we have a very major planning effort under way now for 1967, which will take care of many of these justified complaints as a betterment of service. Our whole orientation is to better our product and better our service wherever it is feasible and we are proceeding on that principle in all parts of the country. But we have to check the feasibility and the economics of these proposals both from a marketing viewpoint and from a product development viewpoint, and from the transportation feasibility viewpoint. We are doing that now.

Mr. MACEWAN: Yes, I think that certainly economically it is proven that this service is used a great deal. At one time the suggestion was made that the only time would be made in the spring and the fall. In the fall the Cape Bretoners go to Camp Hill hospital to spend the winter and in the spring they come back. Certainly with the economic outlook in the province of Nova Scotia that is not the case, and this is used a great deal by many people.

Mr. MacMillan was asked a question by Mr. Andras regarding railiner; I would like to ask him in regard to other types of equipment if it is proposed by the company to buy other types of Pullman cars and so on, or would you wait until you see how the new train works out, and so on, before other cars are purchased. Can they be purchased in North America?

Mr. MACMILLAN: I think you will recall reading in this memorandum, it is on page 12, where we gave an indication of having purchased 51 units of what we described as late model equipment from the United States. There are sleeping cars which have been built within the last 10 to 15 years, and we have brought them to Canada and refurbished them and have put them into service. We do not contemplate buying new equipment of the conventional type. We think that the future lies more, as I indicated, in this type, in this concept of train, not necessarily this type at all, not necessarily this type of suspension but a lightweight unit which will be much more economical to handle, to maintain, and to haul. We have this under very active consideration.

Mr. MACEWAN: Fine; one more question: In regard to the agreement made between CNR and United Aircraft, this lease-maintenance arrangement, as you have set out on page 19; is this a long period agreement, or do you want to give any details with regard to this agreement?

Mr. GORDON: I was just checking my recollection. It is an agreement that covers a period of eight years, and at the end of the eighth year then we will own the equipment ourselves. There are a whole lot of complex financial understandings about the payments being made and applied, and so forth, very much like having a mortgage on your home. It is an eight year proposition with respect to this particular train.

Mr. MACEWAN: And the CNR will be responsible for complete maintenance.

Mr. GORDON: Well, there is a little trick there. Part of the agreement is that the company is responsible for maintenance because they have the skill and know-how and knowledge in regard to this equipment; but by a separate agreement they have agreed to use CNR employees and to do it in our shop, and train our employees in the skills necessary. In other words, they will provide the supervision of our employees, but they will be responsible for the quality of the maintenance.

Mr. MACEWAN: Finally, on page 12, you refer to one of the factors of things being done to bring accommodation in line with known customer demands, and one factor, the final one, is construction or modernization of many stations. I was wondering whether you could give me any details on this, where you plan to carry out this program, or have carried it out up to this date.

Mr. MACMILLAN: I do not think we brought a list of the stations which have been cleaned up and modernized or replaced.

Mr. GORDON: One unsatisfactory example, is Moncton, Mrs. Rideout.

The CHAIRMAN: Perhaps, Mr. MacMillan, you could provide the Committee with that later.

Mr. MACEWAN: That is fine. One reason I asked, finally, is that in my own area I had hoped there would be a new station. It is tied in with express and freight matters and I will not pursue that any further.

Mr. SOUTHAM: Mr. Chairman, a number of my question which I anticipated asking have been already asked and answered, so I will not impose too long

on the Committee's time; but I would like to associate myself with the other members in congratulating Mr. Gordon and his officials for this very good presentation, and particularly the visual slide segment. It goes back to the old adage that seeing is believing, a picture is worth a thousand words.

Now we are all happy to see the profit and loss statement indicates a steadily improving situation in your passenger revenue position. I was wondering if you associated any of this improvement with the take off of the "Dominion" or have you had time to ascertain whether this has made any difference to the transfer of passenger demands on your line?

Mr. GORDON: We have talked about that. It is a very difficult thing to prove because our trains do meet at certain points where the "Dominion" formerly ran. We cannot be certain whether or not the passengers now offering themselves on our trains were former passengers on the train or whether they are attracted by reason of the fact that we have got a good service and that we publicize it, and so forth. It is not possible for us to identify specifically whether or not the passengers came off the "Dominion" extra.

Mr. SOUTHAM: It is a little too early yet anyway to actually appraise this situation, I imagine.

Mr. GORDON: Yes, and I do not know if we will ever be able to do it specifically unless we are able to get people to hang a sign around their necks saying "I used to be on the "Dominion". We would not know otherwise.

Mr. SOUTHAM: In your brief in the upgrading of your passenger service you list a number of things on page 12 that you have done. One, of course, has been referred to, namely the acquisition of 18 Budd cars. I am very glad to hear you say that the officials of your company are developing these into a better standard of service, that is as far as the equipment is concerned. Where are these Budd cars being incorporated? Are some of them in western Canada or where do you anticipate—?

Mr. GORDON: Will you detail that, Mr. MacMillan?

Mr. MACMILLAN: Well, I could give you that detail but they are in use throughout all of Canada pretty well. There are some in western Canada; there are some, for example, in the territory north of Toronto. We have them working out of Montreal. We have them working between Truro and Sydney. We have them out of Halifax. I would say they are pretty universally in use throughout the system.

Mr. SOUTHAM: The reason I ask the question is that as you know there have been a number of applications come in from western Canada for diminution of cut-back in service that is, of passenger service, and I was hoping that in doing this you were anticipating possibly bringing in Budd cars as feeder services to the main lines to still maintain a service—

Mr. MACMILLAN: That is our policy. We operate them, for example, between Regina and Saskatoon, feeding from Regina north to the main line.

Mr. SOUTHAM: I was interested in the comment made by Mr. Cantelon regarding research. I think that this topic has come up several times. You people are emphasizing the importance of research in transportation, particularly as it applies to your railroad. We as members of a government and owning public transportation like rail, air and water, feel that we have a definite obligation here. I would ask you the question, do you think that we are

spending enough time in this particular segment of the problem, or enough money, for instance. What would the answer be to that?

Mr. GORDON: Well, that is my general impression. I do not know in detail the plans of the Department of Transport in regard to assistance that they might be giving to various universities, and so forth. There may be some money being spent or allocated or being discussed about that. I am not familiar with it. My own view is, however, that it would be a far better thing to concentrate the expenditures in one specific institution and to collect together in that institution a real chair, or something of that kind, a faculty of transportation. Then there could be collateral arrangements between the railway and the institution or institutions involved. Perhaps I might just close on this note that I was recently in Japan and I was very interested in a few day visit that I made to the research institute, during which I learned that the railway has its own research institute, as indeed we have, we call it research laboratory, in which they do specific experiments affecting the railway itself. But they are also tied in with three or four large universities in sponsoring types of research affecting the railway and highways, too. There is a mutual attraction in that respect which has been carried out there, and I would like to see us in Canada realize very much the national interest, to have considerably more money allocated for the purpose of transportation research.

Mr. SOUTHAM: Further on research, we have been referring to the use of computers. You mention the limitation of your present computer techniques or equipment in arriving at reservations, and so on; no doubt this computer system has helped you to arrive at conclusions much quicker than the old techniques, for instance.

Mr. GORDON: Oh, yes, indeed, and various forms of simulators in that respect. You can pass through a computer calculation or get a result from asking the computer questions in a matter of minutes where it would take us before, six months or year, or even more.

Mr. SOUTHAM: There is one other question, Mr. Chairman. What special provisions are being made to meet the anticipated heavy demand that will be made by the tourists to Canada in Expo '67, that is, next year. Are you people—?

The CHAIRMAN: That has already been answered, Mr. Southam, on a number of occasions. There is research going on and I do not think that they can answer any more than they have.

Mr. SOUTHAM: Well, I heard one question answered where your basic policy is based on average passenger revenue, and so on, but I was just wondering if you have made definite plans because there will be a heavy demand on your services next year.

Mr. GORDON: We have gone into that in some detail with the previous question and I think if you wade through the evidence you will see it fully disclosed there.

Mr. BYRNE: Mr. Gordon, I want to congratulate you and your officers on the positive approach you are making toward the problem of rail passenger service in Canada. It is in contrast, everyone recognizes, to the position taken by the Canadian Pacific Railway who seem to feel that on the long haul, that is, the trans-Canada service, at least, there is a possibility of phasing out, some of the

services. Since this Committee is charged with the responsibility of investigating the passenger services of the Canadian Pacific Railway and whether they should be upgraded, improved, or not, this naturally leads to one or two of the questions that I wish to ask.

I want to come back to the question asked by Mr. Andras, and I am rather surprised and pleased that he asked what I think is a rather intelligent question also. I had written this question down before Mr. Andras asked his.

The CHAIRMAN: You are using up your time, Mr. Byrne.

Mr. BYRNE: Would your forecast of passenger revenues by 1971 be appreciably affected in the event your competitor which is the CPR were to integrate such an aggressive passenger service policy as you have done?

Mr. GORDON: No; I do not think so. I think that would be a wrong reading of it. In making our policy determinations as to the future of our passenger policy we are doing it within the terms of the market that we know. Now, if somebody else is in that market somewhere else, and there is aggressive competition, as you call it, then the demands upon us are not likely to be as extreme. We would reduce our service but it would not necessarily affect our profit. It would merely be that we were not handling as much of the business. The portion of the business still left to us, we are confident, would result in a net result along the same lines as we have indicated. Our gross figures may be less, but we certainly intend that our net figures would come out pretty much as we have disclosed.

Mr. BYRNE: Your long haul market is identifiable with that of the Canadian Pacific Railway, is it not, to Montreal, Toronto, Vancouver, so that if there is a maximum of demand—

Mr. GORDON: Well, subject to this, that we do not run parallel railroads. They are operating in different travel markets in a great many cases than we are. We do meet at certain of the key points, but there are lots of points along the CPR line that we do not service, and vice versa.

Mr. BYRNE: I am thinking of the transcontinental service; the more domestic, local services are complementary to the long haul, but in operating a number of transcontinental services you would agree there would be some lessening of demand for services provided by the CNR and by the CPR.

Mr. GORDON: Which would reduce our gross revenue but as I said before we do not believe it would reduce our net, and that is the important thing.

Mr. BYRNE: You depend on technological—

Mr. GORDON: It would depend on the way we manage the business and what facilities we have provided. If it was a direct competition I expressed the confidence that the CNR would have a very good chance of getting the business.

Mr. BYRNE: My first question that I had written down here dealt substantially with the same matter. I cannot recall exactly what was on your charts. I think it was an excellent way of presenting them, but—

Mr. GORDON: We are going to have the charts—incidentally, I have talked to the Chairman—put in the proceedings of this meeting. You will have a chance of seeing them again.

Mr. BYRNE: That will be appreciated very much. In 1966, you did show a very appreciable increase in passenger revenues, and this does go back to Mr.

Southam's question. While you cannot determine the amount, you would agree that some of this is attributable to a reduction in service by your competitor. I would not ask you to say how much, but it must be accepted that they are normally travelling by rail and there would, at least in the larger centres, where you give the identical service, be an increase, which would be attributable to—

● (12.44 p.m.)

Mr. GORDON: Would you like to speak to that?

Mr. RICHER: I would like to speak to that. Really the CPR is not our main competitor. In the over-all travel pattern of the country, of all trips of a hundred miles and more made by all travellers, railways enjoy, both CP and CN together, less than 8 per cent. Our main competitor is the private automobile and the plane and the bus, even, not the CPR. The total rail revenues, in 1965, by both railways was only \$75 million. We are shooting in 1971 for \$140 million. We are not thinking of the rail travel now; we are thinking of the market, the gross market, and in that respect the CP is not a real competitor of ours. And, as Mr. Gordon has said, in many instances we do not service the same areas. We do not feel that this action taken by the CP has been a great influence on our surge forward.

Mr. BYRNE: No, no, but—

Mr. RITCHER: It began before the "Dominion" was taken off.

Mr. BYRNE: The remarkable increase shown this year could be affected we put into it.

Mr. RICHER: In part, in part.

Mr. GORDON: But not too much; in the last two months of 1965. But I think I can say this, it was the spring of 1965 that we thought we saw the turn come, we thought that our figures were beginning to show the results of the effort that we put into it.

Mr. RICHER: Another element which I think is pertinent, and I am not talking about the CP at all, but the potential for rail market is so great that if the two railways were active in it, it might promote more rail travel than less. There is such a big part to be shared that you are not restricted only to one or two rail carriers as to the potential exploitation of the market.

Mr. SHERMAN: I am not finished so we will be back this afternoon anyway.

The CHAIRMAN: Well, if it is necessary, we will be but if it is not necessary, we will try and get through by one. This was the indication by some of the members. Mr. Sherman I will put you down again here now.

Mr. SHERMAN: Mr. Gordon and gentlemen, I am much intrigued, Mr. Richer, by your answers to Mr. Byrne's questions, because I wanted to follow up the question of Mr. Southam with a corollary. He had asked how much of the new business on the CNR is old "Dominion" business. I was going to ask you whether in fact; you would even be interested in finding out whether it is old "Dominion" business or not. Mr. Gordon said at the time that he had no way of determining how much of it was old "Dominion" business, but in fact you would not be interested in determining that. I take it from your remarks that you do not regard the CPR as any kind of a competitor in the rail passenger field. Is that correct?

Mr. GORDON: Oh, no, not quite that. Let me put it this way. While it is a competitor in the rail passenger field, it is not such an important competitor actually as to influence our policy. What we are really hitting for, as Mr. Richer has said, all along, long before there was any talk of CPR discontinuing any of its services, when we embarked on this policy five or six years ago, where we worked out the red, white and blue, we were attacking the trade that was going on our highways, and the private car and to some extent the buses, not nearly as much. We know from the figures that by far, far the largest portion of travel is in the family car, and we have directed our advertising and our facilities to convince that fellow that you get a much better ride and cheaper ride on the train than he will on his own car on the highway. That is what our advertising has been specialized at.

We have a very good sign just over one of the main bridges in Montreal coming from Ottawa and of a Sunday evening after you have dodged your way bumper to bumper for about three hours you come to this sign and it reads "Don't you wish now you had gone by the CNR!" This is the kind of thing we are after.

Mr. SHERMAN: May I ask you, Mr. Gordon, whether because of the existence of a trans-Canada highway and the location of the trans-Canada highway in western Canada, which follows generally a southerly route, you feel that it might constitute more of a threat to rail passenger services in the southern part of western Canada than in other parts of the country?

Mr. GORDON: Quite possibly, although we feel even then that the gross potential of Canada is such that we can still aim at the idea that our highways are going to get more and more congested and the fellow who is driving the car, the poor old husband who has been working hard all week, has got to drive the kids to the camp and he is vulnerable to our reminding him of the discomfort and the advantage of travelling by rail.

The market is growing. There is no doubt about it, and this is what has been pointed out in the United States by this research project to President Johnson and certainly it applies to Canada.

Mr. SHERMAN: Would, in your view, a northern trans-Canada highway route constitute a threat to your services in western Canada, the proposed northern trans-Canada?

Mr. GORDON: It is bound to have an influence but when you say threat, I would interpret that to mean a threat to the point where it will put us out of business; is that what you mean?

Mr. SHERMAN: A threat to the point where you might have to reassess the directions you are moving in.

Mr. GORDON: We would reassess the amount of equipment that we dedicate to the service. Remember that our whole aim here is to get to a point where we maximize our rail passenger carriers. Now, there is a market even there. Suppose we have three trains, as for instance, the three trains that Mr. MacMillan mentioned between Toronto and Montreal. Now, if the market is not there we will not run three trains. We run two trains. The same with our "Super Continental." Mr. MacMillan has told you what we are running and we will cut down if the market is being affected by the highway and otherwise. But the trick is to do that on such a basis that as you cut down your gross revenue,

you cut down your expenses, in such a way that your net result is going to be approximately the same.

Mr. SHERMAN: In your view obviously, sir, the market is there in western Canada at the present time for three transcontinental passenger trains.

Mr. GORDON: That is right. We would not be running them otherwise.

Mr. SHERMAN: A minimum of three. May I ask you with reference to the financial aspects of your brief, sir. On page 17, subsection 5, under the section headed "System passenger services results" you mention that your objective is to overtake the short term expenses of \$9.2 million by 1967. What will happen if you have not overtaken those short term expenses by 1967?

Mr. GORDON: Well, there will be a lot of soul searching on the part of the fellows who made the estimate.

Your have got to realize that we are not trying to say here that we have found the secret of being absolutely precise. There is an element of trial and error in this. This is business judgment, and our business judgment is directed to an analysis by market research on all modern methods to determine how we can maximize our rail passengers and get some money out of them. We cannot be absolutely right always, and if we find that our appraisal of a given market, or if something has come into being that we had not taken account of, we adjust our services accordingly. We are in a position today of much greater flexibility in that respect than we ever were before. This industry was tradition-bound twenty-five, twenty years ago to a point where you could not move anything. You could not change anything. One of the first things we had to change when we started thinking along the line was we had to change individuals. We had to get people who could really look at this thing in a different perspective altogether, and some of our people could not change, and we moved them.

Mr. SHERMAN: But this is not a "kamikaze" manoeuvre though, if you do not make it by 1967, you are going to continue in that vein for the foreseeable future?

Mr. GORDON: If in 1967 we fail lamentably to the point where it seems that our whole ideas were fundamentally wrong, then we will have to sit down and reassess the situation at that time. We are completely confident that that will not be the case. Nineteen sixty-seven is only next year, and 1971 is really what our end objective is, I intended to say this before, I do not want the record to show that we are putting these figures year by year as being exact. They are not. We may do better in one year and worse in another, but the point is that on the over-all we hope by 1971 that we will reach a break even point.

Mr. SHERMAN: This is my last remark, Mr. Chairman. The point is that the philosophy at which you are proceeding is that these things cannot be tested and effectively analysed and answered in one year or two years. It is a long range proposition.

Mr. GORDON: Perhaps you might be right. I will try to keep my answer short; you have to remember that in this whole thing this is not just the matter of a week. The matter of people travelling on trains affects seasons; every month is different, every situation is different. We get Christmas in December which is a very much different thing altogether than any other month, and so it goes. Every season is different. The weather makes a difference. All these things

have got to be taken into account. In our red, white and blue plan we did not feel we really had a grasp of the situation, a real reply to it until we had gone through three year of actual experiment. It was only after three years, as I recollect it, that we felt that we had a winner.

Mr. SHERMAN: Thank you, sir.

Mr. HOWE (*Wellington-Huron*): I am very happy to hear Mr. Gordon's remarks about the railroads. I do not know how long it took them to realize that they had to cater to the travelling public and the people in business, whether it was freight or express. Having lived in a railroad town many years, I had the feeling thirty years ago that the railroads took the attitude that you have to use our service or else. Well, there came another service. The "or else" started to take the business away from the railroads, and I am glad to hear that the attitude has changed; that the railroads are going out after his business.

In our hearings, in one of the briefs that we had presented to us, in connection with the passenger service, an examination was made down in the United States. It was intimated that 85 per cent of the travelling public went by the family car, and that there was only 15 per cent left to be divided among the air carriers, buses, and railroads. What is the situation in Canada? Have you made any examination of that?

Mr. GORDON: We have got these figures.

Mr. RICHER: In Canada we have gone into a very extensive and exhaustive survey. About 70 per cent of all trips of a hundred miles or more is made by private automobile and the remaining 25 per cent is spread among the plane, the bus and the train, in about the same proportion. It is about 8 per cent for the plane and 7 per cent for the bus.

Mr. HOWE (*Wellington-Huron*): It would appear then that in the United States, who have much denser population, the family car has continued to take away more passenger service. Do you think this is going to happen as our population increases in Canada?

Mr. GORDON: Ah, yes, but you must remember that in the United States that their highway progress is much ahead of Canada, there are more good roads per head of population in the United States than there are yet in Canada. The family car was the logical thing; they built the highways—

Mr. HOWE (*Wellington-Huron*): They do not have the winter program that we have on our roads.

Mr. GORDON: And the matter of climate.

Mr. HOWE (*Wellington-Huron*): And it is possible for them to build their roads better.

Mr. MACMILLAN: There is one other aspect of it and it is that the railways of the United States virtually withdrew from the passenger business; and following upon our experiment, and I would not wish you to misunderstand what I am about to say, there has been a great awakening in the United States railways. A couple of years ago we could buy all the conventional rolling stock that we would choose to try to buy. Now, they are holding on to it and refurbishing it themselves, and they are going back into fare plans which are patterned after our red, white and blue plan, and adopting many of the techniques which we have put to good advantage. I think you will see that

either the percentage will reverse there or it will be arrested. The deterioration will not continue.

Mr. HOWE (*Wellington-Huron*): Mr. Bell made reference to the differences of opinion that were held within the Committee and the president from time to time in the railroad committee, I can remember several years ago when the main criticism was being aimed at the CNR in connection with their passenger services, as it presently is directed towards the CPR I sometimes wonder whether the decision to change was because of political pressure; that you decided to join the opposition to this thing, or whether you were trying to lick them, or why would this almost turnabout approach be made to the passenger service.

Mr. GORDON: I am quite willing to admit that a visit before the sessional committees that took place is a salutary experience.

The CHAIRMAN: Are you finished?

Mr. HOWE (*Wellington-Huron*): No I am not finished, Mr. Chairman.

The CHAIRMAN: I have asked the Committee to bear with us. It is two minutes to one. I think Mr. Howe is the last questioner except for Mr. Fawcett, Mr. Byrne has a couple of questions and I think we will be completed with the questioning of the CNR officials. Rather than return I think we should sit for the extra ten minutes.

Mr. BELL (*Saint John-Albert*): On that point, Mr. Chairman, I think we have responsibilities here and we should just be careful where we are going. I take it that this appearance today is just an interim appearance: the CNR has been very kind and they have come up, undoubtedly they are as busy as everybody. It is just the presentation of some of the thoughts of their future passenger plans. I know that it is a bad day today. They say, it is just a summary of the highlights of the CN's passenger program, and it hopes that this will be of information and interest to the Committee. There is no tacit approval of any kind whatsoever in so far as the budget in connection with the new train is concerned. It is just a brief appearance to let us know the way they are thinking and—

The CHAIRMAN: We have asked them to deal strictly with passenger service. I asked them to deal with their annual report dealing with passenger service completely. The only matter we are not approving is the budget, but they have dealt exhaustively with passenger service and the passenger service policy, but not with the budget.

Mr. BELL (*Saint John-Albert*): I think we have a responsibility not to appear—

The CHAIRMAN: Let us set your mind straight, Mr. Bell; we are not dealing with the approval of the annual report which I think is in your mind. Right, fine, Mr. Howe?

Mr. HOWE (*Wellington-Huron*): Mr. Chairman, I would like to ask in regard to the railiner service and the passenger service in western Ontario. Last fall, or early last year, there was a crew or a group of people from your area that through that part held meetings all through western Ontario in connection with the railiner service. Subsequently, they came back and indicated that they were going to remove the train from Owen Sound to Guelph, and in fact made application to the Board of Transport Commissioners. Now that

application was later withdrawn. I would like to find out if there are any plans or any moves or abandonments in this connection being considered in that area at the present time.

Mr. GORDON: Yes, we have an application before the Board of Transport now for a partial readjustment of service.

Mr. MACMILLAN: That is correct.

Mr. GORDON: In this particular case we, as you know, over a period of years tried every possible variation of service to see whether or not we could get enough public response to justify it. And one after another the variations we tried have failed, and we do not regard that the service as it now stands as providing any hope of an economic service. Therefore our last readjustment is the appeal of the application that we made before the Board of Transport to abandon a portion of that service.

Mr. HOWE (*Wellington-Huron*): I was quite interested in that because when the C.P.R. was here, in their first appearance before this Committee, they intimated that their passenger train from Owen Sound to Toronto was going to be taken off. I was not on the Committee at the time, I just came on subsequently. If this is true this is going to mean that that area Owen Sound, Hanover, Chesley, will have no passenger service at all.

Mr. GORDON: The Board of Transport Commissioners will take full cognizance of what the results may be. Every one of these abandonment applications goes before the bar of the Board of Transport Commissioners. And as I have said before, one of the first questions we want to be satisfied on is the adequacy of other modes of transport to provide for the transportation needs of a given area.

Mr. HOWE (*Wellington-Huron*): Have they refurbished the railiners that go up there, put more comfortable seats in them.

Mr. GORDON: I made that as a general statement. I assume that it affects them all, does it not?

Mr. MACMILLAN: Yes, it does; but we do not have the program completed as yet, and I really could not tell you whether those have been done or not. My answer I think would be no, they have not.

Mr. HOWE (*Wellington-Huron*): Well I think before you decide to make a change you should try some of those more comfortable cars. I think you would get more people to ride on them.

Mr. MACMILLAN: It might be.

Mr. GORDON: Well, the trouble is that they do not think with what sit on.

Mr. HOWE (*Wellington-Huron*): Well, this is just a little retrograde to the idea of making friends and influencing people.

Mr. GORDON: Ah, but I beg your pardon. I beg your pardon. I take issue with that. In this particular case we have done our damndest, if I may use the word, to try to organize the service or provide a service that the public would support, and we met the leaders of the community of every kind. We had a team go around and we spent an awful lot of time on it, and we met every sensible or reasonable proposal that was made. We met it and we tried it over a period of, I suppose, it must five years now. At least five years that we have done this experimenting. Now, we have reached the conclusion, and we will tell

the Board of Transport and anybody who has a right to appear can still appear before there, that we admit in this case that there was not a travel market to support the full rail service that we were giving them.

Mr. HOWE (*Wellington-Huron*): There have been some very glaring examples of scheduling that have made the public very dissatisfied. I can state the cases.

Mr. GORDON: Various sections of it. Each one of those schedules, some people preferred and other people did not, and what we tried to do was to see what scheduling would give us the best response. The result was that whatever we tried—

Mr. HOWE (*Wellington-Huron*): What I am referring to was just a very stupid one. It could have been eliminated without too much difficulty, sir. It was a case that with respect to a Sunday night train meeting a train coming from Toronto to Stratford from Palmerston to Guelph, there was 10 or 15 minutes difference. The people here had to go by bus, the train had already gone to Stratford. This was just a very, very careless—

The CHAIRMAN: Perhaps when we come up with the annual report you could go into this a lot further. Before calling on Mr. Fawcett and Mr. Byrne, for very short questions, there is only one question that has come to me to ask. Mr. Gordon, the government of Ontario has instituted commuter service from Toronto into Hamilton, I am concerned with one thing. I think we discussed this. They own the property, as I gather, and CN is just running the train for them. Could you tell me who sets the timetable, the CN or the government of Ontario?

Mr. GORDON: The government of Ontario. We are managers for the government of Ontario, and the government of Ontario has complete authority to set schedules as they wish provided that they confer with us so as not to interfere with other operations. In other words, we have got to watch our own requirements and we would try to adjust ourselves to any schedule that they asked us. But they are really—

The CHAIRMAN: You guide yourself by their recommendations?

Mr. GORDON: Not their recommendations, their decisions. They own the service, and they are paying the deficit.

The CHAIRMAN: Mr. Fawcett, very short, Mr. Fawcett.

Mr. FAWCETT: I will just ask a short question, even though I have a dozen more. Will this computerized system of handling coach reservations take care of outlying points. I am thinking of the transcontinental train operating through places like Oba and Foleyet. Will this take care of what has transpired now, overselling of seats in a good many instances?

Mr. McMILLAN: Yes. The way that will work, Mr. Fawcett, is that we are blocking the system into segments which are normal travel legs. If you take in your part of the world, Capreol to Hornepayne, that will be a reservable leg. Within that territory, Capreol to Oba, passenger would be protected by the whole of the leg being reserved and we would have a vacancy from Oba to Hornepayne which we cannot accommodate but which would be available for local sale at Oba to Hornepayne.

Mr. BYRNE: Mr. Gordon, or Mr. MacMillan, having regard to the excessive view, which you agreed with this morning, that the conventional passenger

trains will soon become obsolete, does your forecast of break even point by 1971 anticipate new and more modern consists for your transcontinental service.

Mr. GORDON: Well, the forecast includes any foreseeable new equipment that we think we are going to need. Most of the equipment that we have got refurbished now will certainly last through to 1971, but if the market is such as to support more equipment we will not buy any new equipment of the old-fashioned design. We will go into other types, lightweight, better types and so forth. We have taken account of that, yes.

Mr. BYRNE: That is all I have, Mr. Chairman.

Mr. BELL (*Saint John-Albert*): I do not think it is on the record how much these new elegant trains cost, and that should be of some interest to this Committee.

Mr. GORDON: They do not cost us anything; we lease them.

Mr. BELL (*Saint John-Albert*): I see. How many sets?

Mr. GORDON: Five sets.

Mr. BELL (*Saint John-Albert*): You are the first and only ones at the moment that are leasing this. Have you the general terms of the agreement, without going into detail?

Mr. GORDON: There is a commercial part of this. You remember a reply that used to get you awfully mad in previous committees when I said it was not in the interests of the company to divulge the information. That always made you mad, so I am warning you not to get mad again. But this is a commercial lease made between the two parties. Now the U.A.C. are interested in selling the same kind of thing to other railways, and they would naturally much prefer not to have disclosed the full details of what we are leasing; because, I say to you that as the first user we are getting some advantages.

Mr. BELL (*Saint John-Albert*): What is the value? Does anybody know the value of this, and this would give us in general terms—

Mr. GORDON: Let us take a round figure, on the five sets as I recollect it, it was something better than \$10 million. It would be under \$10 million, that is, for the five sets. It is in that area.

Mr. BELL (*Saint John-Albert*): Well, it sounds like a deal such as the Queen Elizabeth hotel which we do not know finally just how real profitable it is to us.

Mr. GORDON: You can look in our annual statement and you will see the figures under Queen Elizabeth disclosed each year.

The CHAIRMAN: Well, I think we will stay away from hotel operations for now, Mr. Bell.

Mr. GORDON: Yes, we gave you all the details.

Mr. MACMILLAN: We gave you the details.

The CHAIRMAN: Well, Mr. Gordon and gentlemen, I want to thank you on behalf of the Committee for your fine presentation this morning and for taking your time to come and help us to deal with passenger service in the country. We look forward to your return sometime in the fall when we shall deal with your

annual report. I know that Mr. Gordon has a meeting with the Minister of Transport now, so there will be no need to resume our hearings this afternoon, gentlemen.

We are adjourned to the call of the Chair.

Moved by Mr. Byrne and seconded by Mr. Bell, that we do now adjourn.

Motion agreed to.

APPENDIX A-9

CANADIAN NATIONAL RAILWAYS
PASSENGER SERVICES

Statement Prepared by

CANADIAN NATIONAL RAILWAYS

For presentation to

THE STANDING COMMITTEE ON TRANSPORT AND COMMUNICATIONS

TUESDAY, JULY 5TH, 1966.

CANADIAN NATIONAL RAILWAYS
PASSENGER SERVICES

The following is extracted from the 1965 Annual Report of Canadian National Railways, dealing with passenger services, and appears at pp. 9-10:

"Sales

Passenger services revenues increased \$6.5 million or 12.5 per cent, reaching a total of \$58.3 million for the year. The increase reflects improved services, fare adjustments, the growing popularity of the Red, White and Blue fare plan and the cancellation of the CN-CP Passenger Pool Agreement on 30 October, 1965.

The number of passengers carried in 1965 was up 12.3 per cent to 17.4 million. Passengers took an average journey of 100.5 miles, slightly lower than 1964, and passenger miles increased 8.5 per cent to 1,751 million, the highest traffic handled on passenger trains since 1948. Passenger trains covered a total of 19,843,000 miles, an increase of 8.1 per cent over 1964.

The average passenger services revenue earned per passenger mile increased 3.7 per cent to 3.332 cents. The average revenue earned for a train mile rose 4.1 per cent to \$2.94, reflecting the higher rate of increase in revenues compared with passenger train miles.

"Schedules and Services

Consequent upon the termination of the Pool Agreement between the Canadian National and the Canadian Pacific Railway in October, an agreement was reached between the two companies, in consultation with the Board of Transport Commissioners, whereby only Canadian National would furnish passenger train service between Montreal and Toronto and between Ottawa and Toronto. Arrangements were thereupon made by Canadian National to continue and improve service to railway patrons in these areas. A highlight of the service arrangements was the inauguration of a name train, the 'Rapido', between Montreal and Toronto. The 'Rapido', which provides the fastest train passenger service in North America for a comparable distance, has been operating at an exceedingly

high occupancy rate since its introduction. Between Ottawa and Toronto CN now provides convenient morning, afternoon and overnight service.

CN's Montreal-Ottawa passenger service was augmented with the inauguration of the noon-time 'Bytownner'. This train is proving a popular addition to the 'Gatineau', the 'Laurier' and other Montreal-Ottawa trains.

Adjustments in pricing, improvements in ticketing procedures, and studies of meal service arrangements were undertaken during the year. Work is proceeding on the development of an electronic reservation system suitable for railway operations with 1967 as the target date.

"Outlook

Canadian National considers that over the past few years it has been carrying out an energetic and forceful experimental passenger sales program which has consisted of (a) management organization, (b) marketing, and (c) changes in operation. During this period the Company took a positive stand on the need for expanding the passenger business and the benefits to be derived by the public from its use, and intensive efforts have been made to attract the public to rail service as a modern, reliable, efficient and pleasant mode of travel. These experiments have established that there is a large market for intercity transportation in Canada and that, taking account of competitive transportation services, the Railway can economically fulfill a role in intercity transportation in areas of relatively heavy density of population and, similarly, in those areas where indications of activity in the travel market are such as to be likely to produce a level of revenue which would meet the cost of the service. The Company, therefore, will concentrate on providing such passenger services as may be required in these heavy density population areas. Steps will be taken to seek withdrawal from, or obtain public monetary support for, those unprofitable services which do not fit into that pattern, the objective being to eliminate the deficit in passenger operations.

"In the implementation of this policy all efforts will be continued and extended to build up and improve those services which are considered profitable or potentially so, and the objective will be to increase revenue and reduce expenses while at the same time providing a good quality service. A close study of all types of equipment and methods of operation that might enable the Company to attain these objectives will be maintained."

The foregoing policy is founded on the fact that Canadian National does not believe that there has ceased or will cease to be an effective demand for rail passenger facilities in areas of high density population and in those other areas where indications are that the travel market will produce a level of revenue which would meet the cost of providing service. Effective demand, however, will come about only with an effective effort and effective service. Canada is a growing country with a steadily growing demand for travel facilities, and it does not seem to make good sense to eliminate the enormous potential capacity of the railway to move people. In the United States, the Federal Government has established a \$90 million, three-year program of high-speed ground transportation research and development.

The Company's objective is the elimination of the rail passenger deficit, not the elimination of the rail passenger business.

Considering all the circumstances, and the human and physical resources involved in the passenger undertaking, it is felt that the policy which the Company is pursuing is the proper one.

Some background information will be useful to the members of the Committee to explain the basis of the Company's passenger policy. A proper point of beginning is perhaps the circumstances surrounding the examination by the MacPherson Royal Commission of the rail passenger situation. It should be kept in mind, however, that the MacPherson Commission was primarily established to inquire into the problems relating to railway transportation in Canada and the possibility of removing or alleviating the inequities in the freight rate structure. It was not asked by its terms of reference to examine passenger train services specifically, but it was directed to consider the "obligations and limitations imposed upon railways by law for reasons of public policy" and "what can and should be done to ensure a more equitable distribution of any burden which may be found to result therefrom" and, also, "the possibilities of achieving more economical and efficient railway transportation." As a result of these directions the Commission asked for and obtained information showing the extent of the financial losses being incurred at that time by both Canadian National and Canadian Pacific in their passenger services. Insofar as Canadian National is concerned, it was determined that in the year 1958 the passenger train service deficit, on the basis of the costing formula adopted by the Commission, was approximately \$50 million. The Commission's direction was that the railways should eventually withdraw from all uneconomic passenger rail services, and if uneconomic services were considered essential in the public interest then the public purse should pay for their continuation.

It was not suggested by the MacPherson Commission, however, that the railways should abandon rail passenger services altogether; nor was there any suggestion that there was no exploitable market for certain services; nor was it found that all rail services were unprofitable. The Commission merely said that the railways should be given a greater freedom to abandon uneconomic services, but if some other authority considers that such services should be continued then there should be monetary support.

The reaction of Canadian National to this report was to examine its passenger train services, seeking adjustments and reductions in order to reduce the deficit. Services were examined in some detail and reductions in unremunerative and unnecessary train and car miles achieved. Express services had been provided traditionally in passenger train operations, and during this period a start was made removing express from passenger trains, it being combined with l.c.l. into a new "small package" operation known as Express-Freight Services.

It was clear by 1963 that although substantial improvements had been achieved by the actions outlined above, elimination of the passenger deficit could not be achieved by these measures alone. Management had by this time concluded that, to eliminate the deficit, there were three courses open to it, namely:

- (a) The retention of all remaining services plus an all-out effort to attract a greatly increased volume of traffic to these services, in an effort to make them profitable;

- (b) Drastic curtailment of all passenger services leading to a complete phasing out of all passenger operations; or
- (c) A combination of (a) and (b), namely, to build up and improve all passenger services which had a hope of making profit or at least breaking even, plus the elimination of all passenger services which could not be justified economically.

Management decided that to reach an intelligent decision as to which course to adopt, it was necessary that experiments be carried out to establish whether or not it was possible to attract to the railways a volume of passenger traffic sufficient to justify economically the maintenance of all or part of the Company's remaining passenger services. Such a program has been carried out in part during the last few years.

The program consisted of the following:

- (a) Management organization;
- (b) Marketing; and
- (c) Changes in operations.

The Passenger Department, which for years had been associated with freight sales, was constituted a separate department headed by a vice-president responsible for all passenger sales and services. This was done to provide new emphasis to the passenger business and to allow certain staff functions, which had previously been carried out by other departments, to be consolidated in the new department. This was accomplished in 1962.

This newly constituted department pressed forward with marketing surveys and examination of markets, not only to discover what role, if any, Canadian National could economically play in future passenger business but also to evaluate the total travel market and how Canadian National might attract a major portion of that market by means of pricing and revision of the services offered. Perhaps the most striking innovation introduced was the Red, White and Blue Fare Plan.

Canadian National's Red, White and Blue fares now apply between all CN stations in Canada. They represent a comprehensive application of modern pricing and marketing concepts. The fixed rate per mile philosophy which takes no account of the distance travelled has been superseded, as have all previous fares and fare plans.

Although this pricing experiment appeared revolutionary and introduced many changes into traditional railway fare making practices, the Plan was actually based upon a few simple and well-tested business maxims. First, the fares were related to cost in the sense that the differential in the price for coach and sleeping car travel was increased, to reflect the much higher unit cost of carrying passengers in sleeping cars. A long distance mileage taper was introduced in recognition of the fact that the cost of carrying a passenger decreases on a mileage basis the further he travels. Meals for passengers in sleeping and parlor cars were included in the price of the ticket in order to simplify the provision of dining car service and to reduce substantially the average unit cost of feeding passengers.

The most important element of the pricing plan was the recognition of the daily and seasonal fluctuations in travel demand which suggested the need for a system of differential pricing. The fare plan takes its name, "Red, White and

Blue", from the fact that different colours of tickets were made valid for transportation on different days. The calendar was divided into approximately 161 days of low travel demand, 146 days of medium travel demand and 58 days of peak demand. The price of basic transportation varied according to the demand, being highest on the high days and lowest on the low days. This concept, while new to railroad passenger service, had been established as economically sound over many years by both retail and service industries. Seasonal rates in hotels and resorts, airline off-season transatlantic rates, and the famous January sales of practically every major retail store, attest to the universality of this principle.

The new fares were introduced, for a one-year trial, on May 1st, 1962. They applied between all stations east of Montreal on the mainline through Drummondville, New Brunswick, Nova Scotia and Prince Edward Island. They met with immediate success and have continued to produce substantial increases in traffic volumes and revenues since their introduction. Based on results in this experiment, the new fare plan was made permanent in the original territory, and extended to include Newfoundland. On June 23rd, 1963, a similar system of passenger pricing was introduced between Toronto and North Bay through to Cochrane and Hearst in conjunction with the Ontario Northland Railway.

The success of the Red, White and Blue Fare Plan, which had become increasingly evident in the second year after its introduction, resulted in its extension, on October 27th, 1963, to all transcontinental services, to local branch lines in Western Canada, to lines in Southwestern Ontario between Toronto, Niagara Falls, Windsor and Sarnia and to points east and south of Montreal such as Sherbrooke and Richmond. At the end of April 1964, the Red, White and Blue Fare Plan was applied from Montreal and Quebec, north to Lake St. John and Abitibi districts, and in the (then) Pool Zone on May 20th, 1964. On this date, it applied on all lines in Canada.

CN fare structures, represented by the Red, White and Blue Plan, are compensatory at high regular train occupancy levels. They are market oriented and realistic, having regard to the potential of the transportation sector of the travel market. Rail passenger facilities constitute a means of mass transportation; it naturally follows that successful financial results appear much more likely with high volume at low market-oriented prices than with high fares which, on the basis of past experience, would attract a low volume.

The increase in passenger revenue in 1965 of 12.5% can be attributed to a combination of the new fare structure, and equipment, schedule and service improvements. It is apparent that across the System the plan is serving to increase both on-season and off-season traffic and revenues. This increase is particularly significant because, for the great bulk of CN lines, it represents a gain in relation to a preceding year in which the Red, White and Blue fares also applied.

Changes have been made from time to time in the Red, White and Blue fare structure in order to adjust to the competitive situation. Encouragement for this rate action is to be found in last summer's heavy volume of rail travel and the indicated increases for 1966.

The Red, White and Blue Plan was designed with great care on the strength of detailed surveys of the travel market sponsored by the Company and in relation to the characteristics of the product which CN had to offer. Its

concept was in many respects novel; indeed, there are a great many departures from the "conventional" rail pricing practices. The objective, of course, was to set rates which, for each class of travel, between all points and on each day of the year, would correspond as closely as possible to the value which we believed the public would place on our service, so as to yield the greatest net profit or at least cost. Even more important, it was felt that the Red, White and Blue Plan would make it possible to delineate and define, describe and predict the market for rail transportation in a way that had never been done, and with a degree of precision previously unknown.

The Fare Plan is an exercise in the use of only one of the four market variables—pricing, product quality, cost of production, and marketing management. Pricing alone, however, is not the answer, and any pricing innovations will be most ineffective and a failure unless the product, scheduling, and all aspects are improved and made attractive as a pleasant, modern, reliable and safe way to travel.

The marketing analyses and experience showed, without any doubt, customer preference for equipment somewhat different to the standard units in the existing fleet and, therefore, several important equipment changes were initiated to bring the accommodation in line with known customer demand. An illustrative list of some of the things done follows.

- “Upgrading” of the “Scotian” between Montreal-Halifax.
- “Upgrading” of the “Super Continental”—Montreal-Toronto-Vancouver.
- Addition of the “Panorama” as an additional first-class transcontinental train.
- Introduction of the “Champlain”—Montreal-Quebec.
- Introduction of the “Chaleur”—Montreal-Campbellton.
- Additional fast train services in Southwestern Ontario, Montreal-Ottawa, Montreal-Sherbrooke, and on other routes.
- Inauguration of the “Rapido”—Montreal-Toronto on North America’s fastest current passenger schedule.
- Introduction of CN services between Toronto and Ottawa.
- Summer operation of the “Super Continental” with separate Montreal and Toronto sections.
- Acquisition of 18 Budd Railiners, permitting conversion of additional feeder line services to more attractive and efficient operation.
- Purchase and complete renovation of 51 units of late-model equipment from U.S. carriers, including “Sceneramic” and “Skyview” lounges, all-room sleepers and the unitized “Champlain” train set.
- Major conversion and renovation of a very large proportion of the current passenger car inventory.
- Adoption of bingo, complimentary coffee hours, “Kiddies’ Hours”, and other “Traveliving” features on longer distance trains.
- Training courses for one-train personnel with respect to customer relations.
- Construction or modernization of many stations.

These projects have been supported and supplemented by streamlined tariff and ticketing procedures, augmented reservations facilities, new sales aids (credit card, “Charge-a-Trip” Plan, “Tickets-by-Mail”) and intensified advertising and promotion.

This experimental period represented, in all aspects of the passenger operation, a most positive stand by the Company in dealing with the passenger situation. The results of the experiment have been most fruitful and provide information necessary to determine the future course of action.

ANALYSIS OF PASSENGER EXPERIMENTS

The determination of whether there is or can be a rail travel market yielding sufficient revenues to cover related expenses has underscored CN's passenger activities since late 1961. Some of the conclusions derived therefrom, which serve as the basis of its program for the future, are as follows:

- (1) Rail passenger transportation is subject to the same laws of supply and demand as any other business. If the product is unattractive, poorly presented and overpriced, people will be reluctant to buy it, and there will be no apparent "demand" for railway service.
- (2) At prices which are competitive, taking quality of service into account (e.g. Red, White and Blue), it is still possible to make money, provided the market is big enough. Even in large mass markets, a poor product, overpriced in relation to competition, can lose money.
- (3) The railway is a medium of mass transportation which must gear its services and prices to the needs of the 90%, rather than the 10%. The key, of course, is to operate in markets large enough to provide sufficient patronage at prices which are competitive with those of competing modes of transportation.
- (4) One of CN's problems concern the fact that it has too many service obligations in areas of low travel potential, and has not as yet fully exploited the profit potential of its high volume operations.
- (5) While changes and improvements have been made to equipment from time to time, the technology used by virtually every passenger railway in North America has remained basically unchanged for many years. As well, relatively little new investment has occurred in the past ten years and the technology itself upon which passenger trains are now based is more than thirty years old. About half of CN's passenger fleet predates 1937, although with CN's intensive modernization program, this fact is less evident to the public. Even with this burden of out-dated technology, but with aggressive merchandising and imaginative decor, it is still possible to be competitive, contemporary, and to make money with passenger trains.
- (6) Use of new train concepts may reduce losses on sub-marginal services, and greatly increase profit margins on high volume operations. Market appeal would be greatly strengthened and overall, intercity rail transportation transformed. The research which has established these possibilities and has opened the way for new types of rail service was one of the fruits of CN's positive approach.
- (7) Complementing the new equipment would be a number of measures to revolutionize other aspects of rail passenger service. A new

electronic reservations system, now being planned by CN, will improve service, reduce cost and permit a larger number of trains to go on complete reservation. New methods of catering to passengers, incorporating the latest advances in food preparation, will improve service and reduce costs. Intensive marketing studies will determine exactly what customers require and will permit services to be tailored more exactly to their needs. New methods of selling and accounting will complete the revolution in ticketing, pricing and general selling methods which began four years ago with the "Red, White and Blue Fare Plan." Much closer integration will be sought with highway carriers to provide essential feeder service to rail trunk line operations. In some areas where travel volume is insufficient to support rail passenger service, CN will apply to be relieved of its service obligations. This could happen particularly where there are well developed alternative facilities.

Financial

Reference has been made to the MacPherson Royal Commission on Transportation and its observations about the passenger business. That Commission determined that Canadian National, in 1958, had incurred an annual deficit of approximately \$50 million on its rail passenger train services, according to, as has been previously stated, the cost formula adopted by the Commission. Included in this figure were the results of its express and mail service which was provided on passenger trains. In dealing with passenger services and the passenger problem since the publication of the MacPherson Commission reports, Canadian National has separated express and passenger services, and it can be generally said that express traffic has now been removed from passenger trains.

The following table shows the relative position and change since 1961, including a projected figure for 1966:

SYSTEM PASSENGER SERVICES RESULTS

(\$ 000,000)

Year	Revenues	Expenses	Deficit
1961	47.9	95.3	47.4
1962	48.3	90.0	41.7
1963	50.1	91.9	41.8
1964	55.8	102.4	46.6
1965	64.1	110.6	46.5
1966	78.5	118.0	39.5 (Projected)

Our analysis of the financial results indicates the following, and these observations should be read in conjunction with the previous remarks made concerning the experimental measures undertaken.

- (i) Passengers are now returning to the railway in record numbers and in 1966 CN expects to set a postwar traffic record.
- (ii) The 1966 figures for the first six months and the projected trend indicate that revenues are increasing at a faster rate than expenses.
- (iii) CN's analysis of the financial results, taking the year 1965 and the deficit for that year of \$46.5 million, shows this figure to be made up

of short-term expenses of \$9.2 million and long-term expenses of \$37.3 million. This means that if the passenger business were abandoned immediately, i.e. all services stopped, say as of today, then the immediate saving would be \$9.2 million. The remainder of \$37.3 million is represented by long-term expenses and capital charges which would not be overtaken for, say five years or so.

- (iv) As previously explained, the Red, White and Blue Plan and the other positive promotion programs began in a partial way in 1962, and it was not until 1964 that the project was made System-wide. In looking at the figures and on the basis of our analysis there is no guarantee that, had we not embarked on the experiments, the deficit would have continued on a downward trend. To the contrary, there is every likelihood that the revenue lost would have outstripped train service cutbacks, producing a greater deficiency between earnings and expenses.
- (v) Our projection and objective is that by 1967 we will overtake the short-term expenses of \$9.2 million and in the early 1970's produce a complete break-even position.

Analysis also indicated that the Company, on the basis of its experience, should neither withdraw from the passenger business completely nor retain all of the services currently operated. Rather, the course should be to compete vigorously for passenger business where railway facilities and the travel market provide reasonable expectation of a profit and also to withdraw from or otherwise eliminate the loss occurring on those services that in spite of all reasonable effort have no reasonable prospect of meeting their operating costs. This means that the present services are being analyzed and placed in two main categories:

- (a) Those that are economic or potentially so and which should be exploited and developed as much as possible; and
- (b) Those which are uneconomic and should be discontinued or, if required to be retained, given monetary support by some public authority.

Those services which are economic should be exploited under a detailed plan which would include selective pricing adjustments both upwards and downwards to obtain maximum occupancy the year around and minimize the necessity for added cars and second sections. The service should be of a first class, high quality nature which may ultimately require new equipment and certainly reconditioning of existing equipment. In other words, no effort should be spared to promote and develop economic services as much as possible.

The detailed planning presently under way in the Passenger Sales and Services Department directed toward improving services and reducing expenses fits clearly into the concept of this overall plan. The railway will, therefore, move ahead with all aspects of this planning which includes the development of an improved reservations system; new feeding arrangements incorporating modern catering techniques; expanded use of railiner equipment; exploration of new and improved equipment possibilities; further experimentation in the level of fares; the possibility of reducing unnecessary and expensive free baggage privileges; exploration of crew changes and other labour adjustments; reduction in terminal costs; and discontinuance of uneconomic services. The total

concept in this area of the endeavour will be to capitalize now on the findings of the recent past and to commence with the utmost vigor and at the earliest possible date to exploit the opportunities available for increasing revenues, decreasing costs and for modernizing the viable portion of the passenger business.

As mentioned above, Canadian National will introduce an electronic push-button reservations system, to begin operation in 1967, capable of making and confirming train reservations within seconds.

The computer-run network, centred in Toronto and connected to 37 Canadian cities and Chicago in the United States, will be inaugurated next January 1st. Canadian National will then become the only North American railway offering instantaneous reservations service, and the new system is a priority item in CN's campaign to revitalize its passenger business.

At the outset the service will accommodate coach reservations only. Early in 1968, using a new computer with greater capacity and after personnel have received the necessary training, the service will be extended to include parlor and sleeping car reservations.

TURBOTRAIN

Much interest has been generated in the Company's plans to acquire new, turbine-powered passenger trains to operate between Montreal and Toronto. The Company has made an arrangement with United Aircraft of Canada, Limited, and the parent United Aircraft Corporation, to obtain, under a lease-maintenance arrangement, five sets of equipment to be ready for service in the Spring of 1967.

Passenger traffic in the Toronto-Montreal service is growing rapidly and exceeds 6,000 persons per day by all modes in each direction. In ten years it is expected to double. CN's portion of this traffic is increasing very rapidly and the service is currently profitable. More capacity is required and this cannot be provided by withdrawing equipment from other services since many of these are also enjoying a growth rate. The choice was between conventional type equipment of basically outmoded design or an advancement into a new age using available technology.

Turbotrains will incorporate a number of new features in the interior design and passenger comfort and convenience.

The new equipment will meet all the safety and structural requirements of the Board of Transport Commissioners and the Association of American Railroads.

Except for the fact that it will have steel wheels on steel rails, the turbotrain represents a new concept in railway passenger equipment.

It is the first major breakthrough in railway technology since diesel locomotion.

The turbotrain is designed along aerodynamic lines to reduce "dead" weight and air resistance. It will be of aluminum construction in practically all instances.

Performances have been calculated through detailed studies made with the help of computers at United Aircraft Research Laboratories from a train

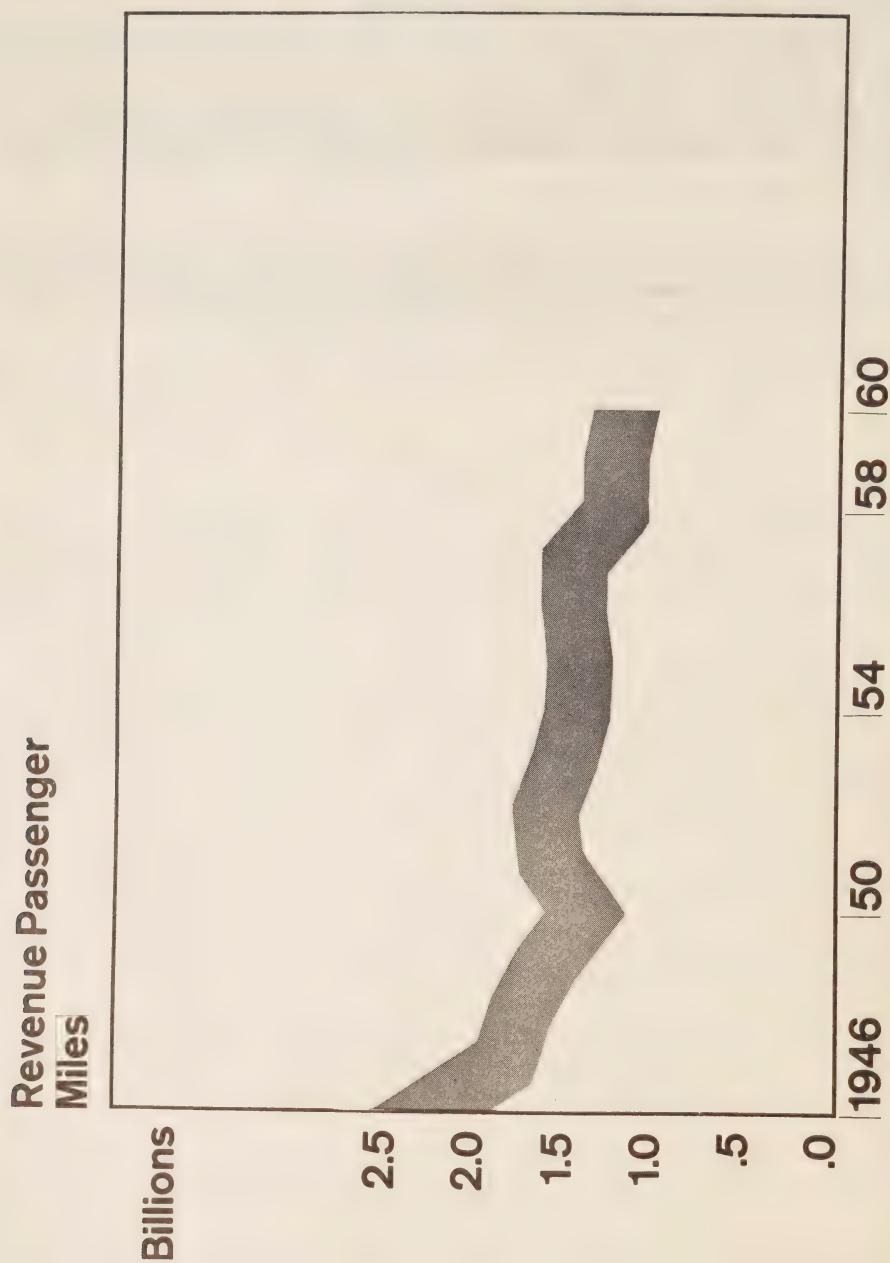
performance calculator program developed by Canadian National. This simulated actual train operations over present trackage, including all curves, crossings and grades as they now exist on the runs studied.

The lower centre of gravity, combined with a pendulous suspension system and guided axles, will permit the train to take curves at speeds up to 30 per cent faster than is now possible.

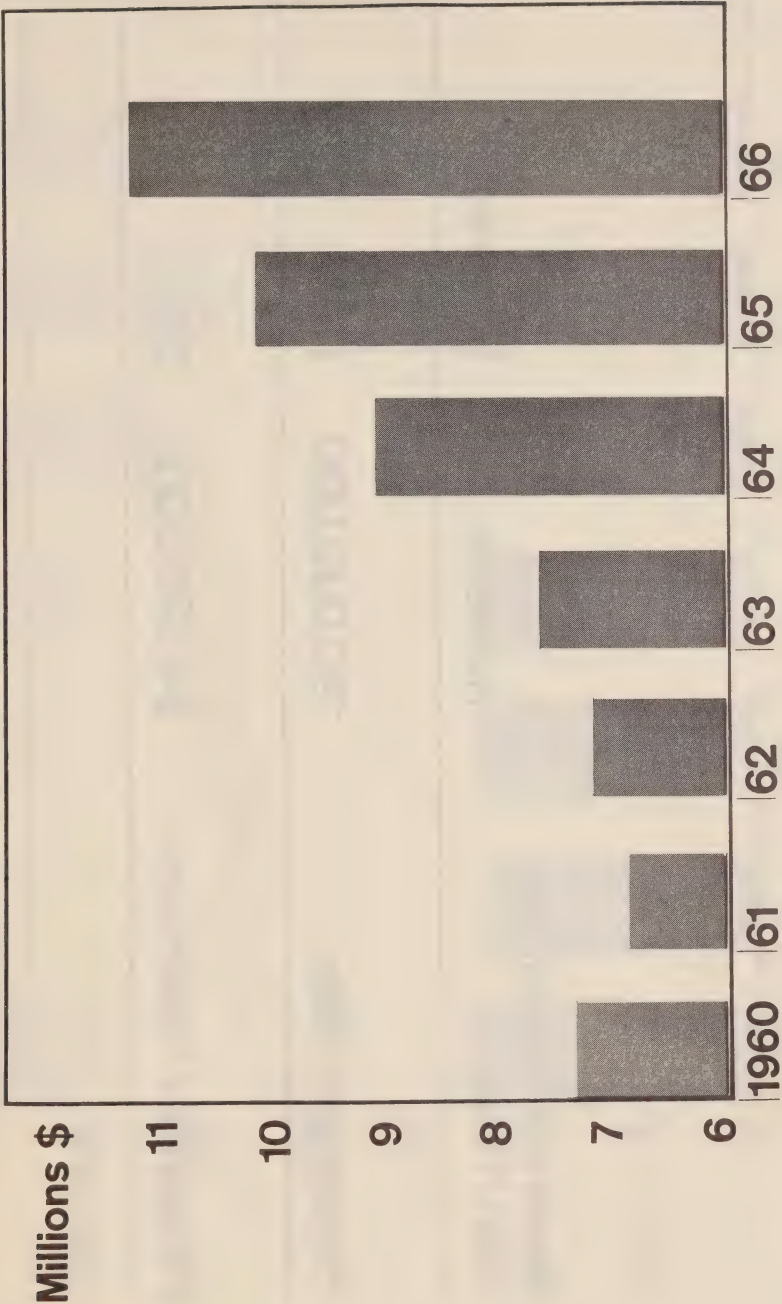
The Company is convinced that the acquisition of this new equipment, an entirely new concept in railroading, will represent a spectacular event in Canada.

The foregoing summarizes the highlights of Canadian National's passenger program and it is hoped that this information will be of interest and assistance to the members of the Transport and Communications Committee.

APPENDIX A-10

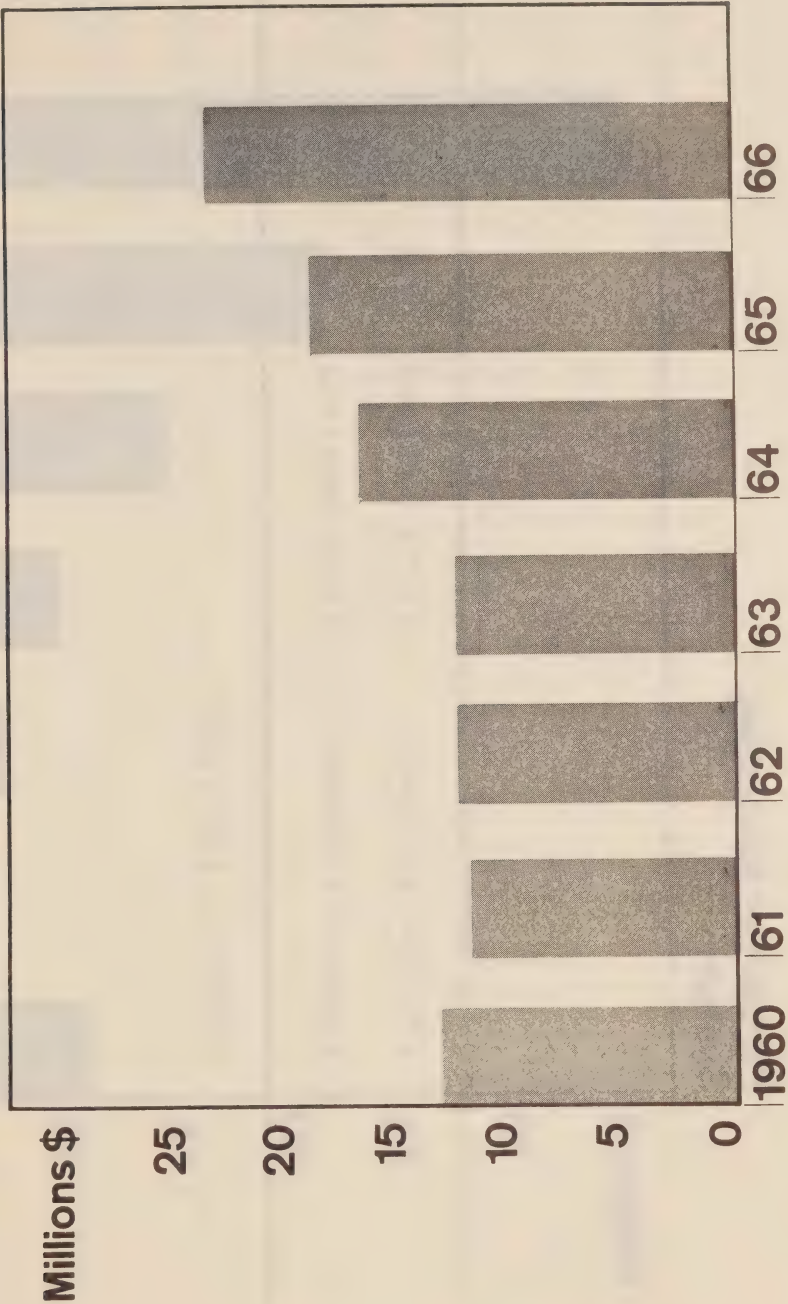


**Montreal/Maritimes
Passenger Revenues**

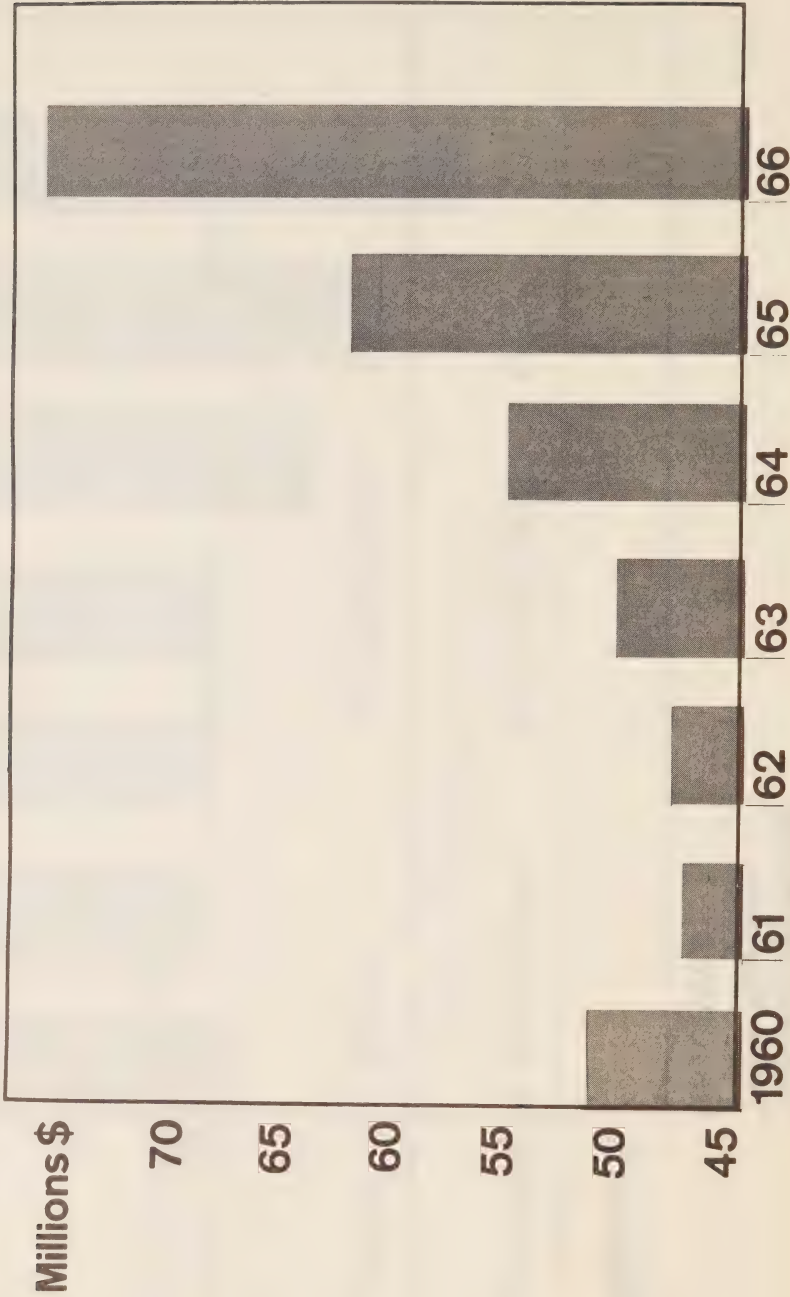


Montreal/Maritimes 1961/1966	Increase	% Increase
Passenger Miles	190,000,000	110%
Passenger Revenues	\$4,600,000	68%

Transcontinental
Train Service
Revenues



Passenger Revenues
System



System - 1961/1966

Revenue Increase	\$30.6 million	64%
Expense Increase	\$22.7 million	24%

Monthly Revenue Gain	1964 vs. 1965
January-October	Up 10%
November-December	Up 30%

Passenger Services Results - 1966 - \$ millions			
	Revenues	Immediately Avoidable Expenses	Net
Non-Profitable Services	19.0	25.6	(6.6)
Profitable & Potentially Profitable Services	59.5	55.0	4.5
Totals	78.5	80.6	(2.1)
Less: Capital Charges and Longer Term Avoidable Expenses			37.4
Net Contribution or (Deficit)			(39.5)

System Passenger Services Results
First two quarters - \$ millions

	1964	1965	1966
January, February, March Deficit	9.9	13.8	12.2
April, May, June Deficit	11.5	11.7	10.4

Selected Indicators - First half of 1966 vs. 1965

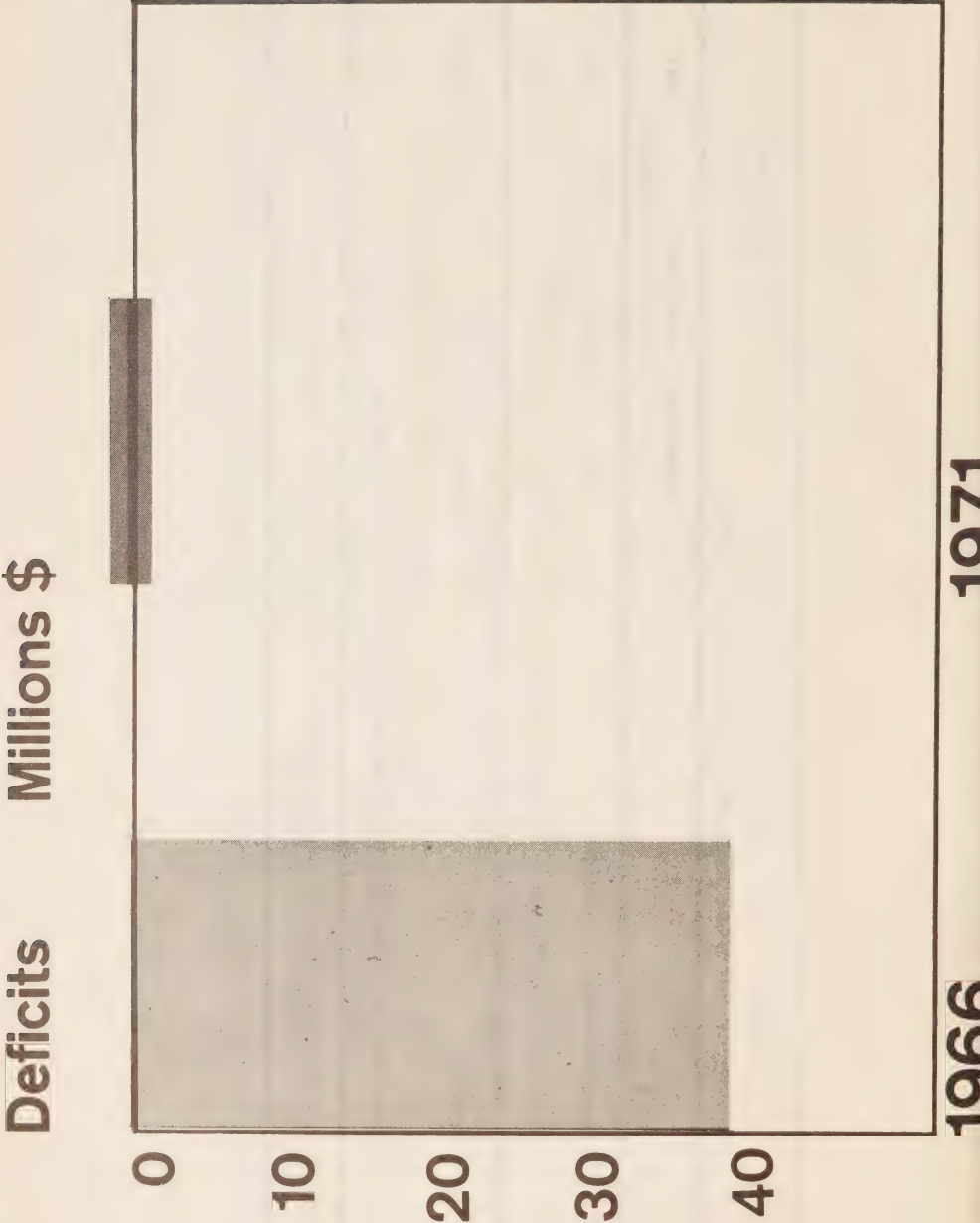
1. Passenger Revenue Gains -	
Transcontinental	30%
Maritimes	15%
Montreal-Toronto	30%
2. Scheduled Train Mile Increases -	
Transcontinental	2%
Maritimes	10%
Montreal-Toronto	25%
Other	6%

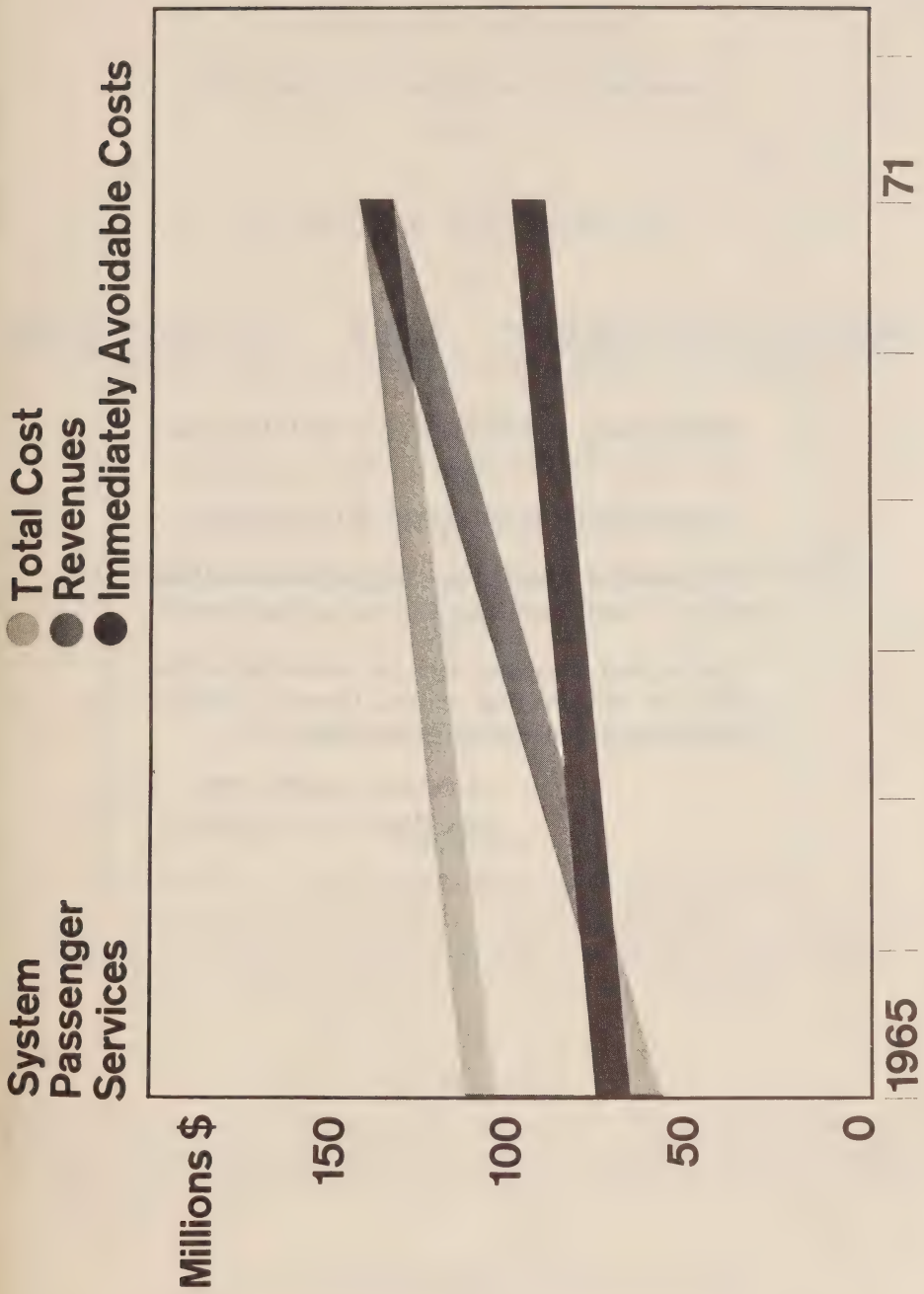
System Passenger Services Results - \$ millions

Year	Revenues	Expenses	Deficit
1960	52.2	98.7	46.5
1961	47.9	95.3	47.4
1962	48.3	90.0	41.7
1963	50.1	91.9	41.8
1964	55.8	102.4	46.6
1965	64.1	110.6	46.5
1966	78.5	118.0	39.5 (Projected)

Passenger Services Results - 1971 - \$ millions

	Revenues	Immediately Avoidable Expenses	Net
Non-profitable services	34.5	24.5	10.0
Profitable & Potentially Profitable Services	105.5	73.3	32.2
Totals	140.0	97.8	42.2
Less Capital Charges and Longer Term Avoidable Expenses			42.2
Net Contribution or (Deficit)			0.0





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**OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE**

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**LÉON-J. RAYMOND,
*The Clerk of the House.***

HOUSE OF COMMONS
First Session—Twenty-seventh Parliament
1966

STANDING COMMITTEE
ON
TRANSPORT AND COMMUNICATIONS

Chairman: Mr. JOSEPH MACALUSO

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 23

THURSDAY, OCTOBER 6, 1966

Respecting
BILL C-231

An Act to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and to enact other consequential provisions.

WITNESSES:

From the Department of Transport: Hon. J. W. Pickersgill, Minister of Transport; Mr. J. R. Baldwin, Deputy Minister; Mr. R. R. Cope, Director, Railways and Highways Branch; Mr. Jacques Fortier, Legal Counsel.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE
ON
TRANSPORT AND COMMUNICATIONS

Chairman: Mr. Joseph Macaluso
Vice-Chairman: Mr. H.-Pit Lessard
and

²⁶ Mr. Addison,	Mr. Horner (<i>Acadia</i>),	Mr. Reid,
Mr. Allmand,	Mr. Howe (<i>Wellington-</i>	Mrs. Rideout,
Mr. Andras,	<i>Huron</i>),	Mr. Rock,
Mr. Ballard,	Mr. Hymmen,	²⁰ Mr. Schreyer,
Mr. Bell (<i>Saint John-</i>	Mr. Lessard,	Mr. Sherman,
<i>Albert</i>),	Mr. Macaluso,	Mr. Southam,
Mr. Byrne,	Mr. MacEwan,	²⁷ Mr. Stafford. (25)
²⁵ Mr. Boulanger,	Mr. McWilliam,	
Mr. Cantelon,	Mr. Olson,	
Mr. Fawcett,	Mr. Pascoe,	
	(Quorum 13)	

R. V. Virr,
Clerk of the Committee.

²⁵ Mr. Boulanger replaced Mr. Yanakis on August 30, 1966.

²⁶ Mr. Schreyer replaced Mr. Saltsman on September 9, 1966.

²⁷ Mr. Stafford replaced Mr. Cashin on September 9, 1966.

²⁸ Mr. Addison replaced Mr. Deachman on September 9, 1966.

ORDERS OF REFERENCE

TUESDAY, August 30, 1966.

Ordered—That the names of Messrs. Boulanger and Cashin be substituted for those of Messrs. Yanakis and Carter on the Standing Committee on Transport and Communication.

Attest.

THURSDAY, September 8, 1966.

Ordered—That Bill C-231, An Act to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and enact other consequential provisions, be referred to the Standing Committee on Transport and Communications.

Attest.

FRIDAY September 9, 1966.

Ordered—That the names of Messrs. Schreyer, Stafford, and Addison be substituted for those of Messrs. Saltsman, Cashin and Deachman on the Standing Committee on Transport and Communications.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House.

REPORT TO THE HOUSE

FRIDAY, October 7, 1966.

The Standing Committee on Transport and Communications has the honour to present its

TENTH REPORT

Your Committee recommends that it be authorized to sit while the House is sitting, during its consideration of Bill C-231.

Respectfully submitted,

JOSEPH MACALUSO,
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, October 6, 1966.

(40)

The Standing Committee on Transport and Communications met this day at 10.40 hours a.m., the Chairman, Mr. Macaluso, presiding.

Members present: Mrs. Rideout and Messrs. Allmand, Andras, Ballard, Bell (*Saint John-Albert*), Byrne, Boulanger, Cantelon, Fawcett, Howe (*Wellington-Huron*), Macaluso, MacEwan, McWilliam, Olson, Pascoe, Reid, Rock, Schreyer, Sherman, Southam, Stafford (21).

Also present: Mr. McCleave, M.P.

In attendance: From the Department of Transport: Hon. J. W. Pickersgill, Minister of Transport, Mr. J. R. Baldwin, Deputy Minister, Mr. R. R. Cope, Director, Railways and Highways Branch, Mr. Jacques Fortier, legal Counsel.

The Chairman asked the members for their comments on hours of sitting for the Committee while considering Bill C-231.

Moved by Mr. Rock, seconded by Mr. Olson,

Resolved that the Committee seek authority for the Committee to sit while the House is sitting on Thursday, October 6 and Friday October 7. (See note below)

Moved by Mr. Southam, seconded by Mr. Boulanger,

Resolved that the Committee seek authority for the Committee to sit while the House is sitting during its consideration of Bill C-231.

The Chairman tabled a paper intituled "Comparison of Rail Traffic Moving under Different Rate Classifications". The paper was identified as Exhibit "A-IO" and copies were distributed to the members.

The Chairman then invited the Minister of Transport to make an opening statement. At the conclusion of this statement, the Minister responded to questions of the Committee members.

At 1.00 o'clock p.m., the meeting adjourned until 9.30 o'clock a.m. on Thursday, October 13, 1966.

R. V. Virr,

Clerk of the Committee.

Note: Because the meeting adjourned until October 13, it was not necessary to seek permission to sit while the House was sitting on October 6th and October 7th. Consequently no report was made to the House relative to October 6 and October 7.

EVIDENCE

Recorded by Electronic Apparatus

THURSDAY, October 6, 1966

● (10.40 a.m.)

Mr. CHAIRMAN: We will commence the first day's hearing on Bill C-231. We have with us today as the first witnesses the Minister of Transport, the Honourable J. W. Pickersgill, Mr. Baldwin, the Deputy Minister of Transport, Mr. Ray Cope, the Director of Transportation Policy and Research Branch of the Department of Transport and Mr. Fortier, counsel for the Department. Before proceeding, I believe that those Members who do not have a copy of Bill C-231 will have copies distributed to them. There will also be distributed to you an exhibit prepared by the Department of Transport and which we have with us now. The steering committee met this morning at 9:30 and has set some hours of sittings for our hearings on this Bill. We wish first of all to obtain a motion to sit on October 6th and 7th, today and tomorrow, and receive concurrence from the House to sit while the House is sitting. We will then ask for a motion to receive a blanket request from the House to sit while the House is sitting during consideration in Committee of this Bill C-231. The intention is to sit on Mondays beginning at 10:00 a.m.; Tuesdays and Thursdays at 9:30 a.m.; on Wednesdays there are a couple of hours there but if we have small briefs we may sit or may not sit, and Fridays at 9:30 a.m. If I may have a motion to ask permission to sit while the House is sitting today and tomorrow. Moved by Mr. Rock, seconded by Mr. Olson. All in favour—carried. Those opposed—0

Mr. Rock: That meeting at 10 o'clock on Monday, I think you should change that to 10:30; the trains come in around 10:00.

Mr. CHAIRMAN: We will leave that flexible, Mr. Rock, but I will make a note of that right now. I think we will readjust that. Thank you for bringing it to my attention. We have a motion therefore to place on the Order Paper a notice for permission to sit while the House is sitting when we are considering Bill C-231. Moved by Mr. Southam, seconded by Mr. Boulanger. All in favour; Those opposed—carried. We issued a press release as to the hearings of this Committee on this important Bill and we asked that the briefs be lodged with the Clerk of the Committee, and we have with us Mr. Virr as the Clerk of this Committee, by October 5 and some dates after, and we have written to each of the provincial governments and their counsel and to the National Farmers Union and the Canadian Trucking Association, all the important firms and individuals who are interested in the proceedings of this Bill. We now have briefs from the C.P.R. and from the Canadian Manufacturers Association. As the briefs come in they will be forwarded to you at your offices and we have asked that they be sent to us at least a week before the date of the hearing so that Committee Members may have the opportunity to peruse the briefs and

prepare their questions. We also ask, as we have in the past, that witnesses do not read their complete brief but place a summary of it before the Committee and the Committee Members will then do their usual homework in preparing their questions by reading the brief beforehand. As the briefs come in they will be sent by the Clerk to your offices and we ask that you bring them to this meeting.

We have heard from the following people who will be presenting briefs: the Province of British Columbia, the Province of Alberta and the Province of Ontario. The provinces of Nova Scotia, New Brunswick and Prince Edward Island will be represented by the Maritime Transport Commission, who will be presenting a brief on behalf of the Atlantic Provinces. The Province of Quebec has given us no reply to date, neither has the Province of Manitoba, the Province of Saskatchewan nor the Province of Newfoundland. The National Farmers' Union, the Saskatchewan Wheat Pool and the Canadian Co-Op. Wheat Producers will represent the three wheat pools. The Canadian Trucking Association we have not heard from as yet, although we have notified them of the hearings and requested them to present a Brief. Shell Oil of Canada will submit a brief on pipelines. The Canadian Construction Association, the B.C. Federation of Agriculture and the Mayors and Municipalities will also present briefs.

At our hearings the procedure we will follow is that as soon as we are through with the opening remarks of the Minister and Deputy Minister and any questioning, the C.N.R. will be called first on October 13th and 14th to present their brief and for questioning. After that the C.P.R. will be called and they will be called on October 20th, and in between that we will fit one or two of the other briefs to fill in the dates, because Mr. Sinclair is unable to attend on the 17th and 18th, and the 19th is a Wednesday, and with such short hours we decided we would commence on the Thursday morning and then we will proceed from there with the briefs which have been filed with us. Are there any questions on the brief before we proceed?

Mr. HOWE (*Wellington-Huron*): Mr. Chairman, I was just wondering about the schedule you indicated was going to be set up for the meetings of this Committee, and the number of briefs that were going to be presented. Is there any particular pressure that this particular legislation has to be proceeded with and that some time limit is on it to be passed through—

Mr. CHAIRMAN: The Minister is here, Mr. Howe. Perhaps you can place that question before him when we proceed.

Mr. HOWE (*Wellington-Huron*): —because many of us are on other committees of this House and—

Mr. CHAIRMAN: Well, Mr. Howe, if I may say something on that matter. I think, and of course this if for each Member, that the importance of this legislation in the national interest calls for each Member to pretty well forsake some other committee if they wish to remain on his Committee and—

Mr. HOWE (*Wellington-Huron*): Pardon me, Mr. Chairman, have you discussed that item with the other Chairmen of the other committees?

Mr. CHAIRMAN: We will be, but we discussed this with the steering committee this morning, Mr. Howe, so that I think that the importance of this legislation speaks for itself.

Mr. BELL (*Saint John-Albert*): Well, Mr. Chairman, on that point I think we agree that what we are trying to do is push on with this legislation, but the one reservation that should be on the record is that we want to check back on our over-all caucus position in so far as these numerous committee hearings of all the committees are concerned.

The CHAIRMAN: That was made clear this morning in the steering committee.

Mr. BELL (*Saint John-Albert*): It is one thing to be optimistic but you have to be realistic around here too.

The CHAIRMAN: That qualification was discussed in the steering committee this morning, Mr. Bell. If there are no other questions, we will proceed with the Minister of Transport and his opening remarks.

● (10.50 a.m.)

Mr. PICKERSGILL: Mr. Chairman, I think the Members of the Committee were very patient with me in the House of Commons when I made two of the longest speeches that have been made in recent times on any legislation. Everyone knows that I have a horror of repetition and I think that if speakers have a horror of it, listeners have an even greater horror. Therefore I do not intend, unless I have not made myself clear and I am asked questions, to traverse the subject generally. I think what I really should do is to address myself first to the question already raised by Mr. Howe, which I would have raised anyway, and that is as to the urgency of this legislation. I think, perhaps, I would like to deal with that under three heads. First of all, it will be recalled that the origins of this legislation go back to the Freight Rate Reduction Act and the wage settlement of 1959, which is the best part of eight years ago, because if I recollect properly that was early in the year. At that time the rate reduction involved in the Freight Rate Reduction Act, which was a roll back from the wage increase that the Board of Transport Commissioners considered that the railways were entitled to have in order to meet a wage settlement, was posited on the need to have a new examination of the whole freight rate structure for the railways, and for this and other purposes the MacPherson commission was appointed. Like all royal commissions, almost without exception, it took longer than anyone forecast to do its work.

For reasons that I am not going to enter into, and I am not seeking to impute any blame to anyone, because I would think that if there is any blame for delays, at least as much blame must rest on the shoulders of the present Minister of Transport as on anyone else. Therefore, you can easily understand that I would prefer not to impute any blame to anyone. I am just giving an historical synopsis of the situation. The situation was represented by the then prime minister as urgent in 1960. It was represented by successive ministers of transport: Mr. Hees, Mr. Balcer and Mr. McIlraith as urgent while they were ministers. I think the only thing I can say about my own attitude to the matter is that having profited, perhaps not much, but a little wee bit from the experience of my predecessors I have refused to set myself any deadline.

We did introduce legislation in 1964 and I was very glad to have a confirmation from the most eminent possible authority on this subject, Mr. Diefenbaker himself in the house, that this legislation was substantially the same as the legislation which would have been introduced by the previous

government and which was based quite squarely upon the MacPherson report. So I think it can fairly be said that there was something, so far as governments were concerned—I am not talking about parliament here—approaching a consensus of what was the appropriate thing to do, certainly as early as the introduction by me of Bill No. C-120 in 1964.

Well, we all remember what happened to that bill. I thought that we would make more progress toward an ultimate solution of this problem, and I thought that a proper solution was more important than haste, if we killed the bill, did not attempt to pass it in that session, but had rather extended hearings of the then committee on the subject matter of that bill, because it was felt that in the intervening period between 1960 and 1964 the economic condition of the country had changed quite markedly. There had been one very profound change which affected the railways drastically, and that was the succession of bumper crops in western Canada which, I think, forced everyone to alter his outlook a bit about one very important aspect of the recommendation of the MacPherson commission, namely the degree to which the capital structure of the railways, the physical structure of the railways, on the prairies should be reduced.

In any event, because the committee the last time it sat to consider this matter was dealing with the subject matter and not with a specific bill, its inquiry was pretty far reaching. That is not the situation today. We have before us a bill that has been accepted in principle by the House of Commons, and that is all that we have before us in the committee. Therefore, I take it that the committee is not instituting a new review of the subject matter, that what the committee is going to address itself to is the task given it by the House of Commons, which was to deal with this bill and not to try to change the scope of this bill or to alter its structure fundamentally. In other words, this committee is not an inquiry, or much less a royal commission; it is a committee of parliament dealing with a piece of legislation.

Now, in saying that I do not want to take away one whit from what I said in the House of Commons, that within the scope of the bill, and within the scope of its general framework, I, speaking for the government which is sponsoring this bill, am quite prepared to consider any modifications in the specific clauses that would appear better to achieve the objective which the government had in mind in bringing this legislation before us. However, I do think there are certain reasons which did not exist even in 1964, and which existed to a lesser degree earlier, which do make it urgent, if we can get the consent and, of course, the government is always in the hands of parliament—of parliament, to pass this legislation through both houses of parliament in this calendar year.

I would just like to give those reasons very succinctly. The most important of them by far is that because of the failure to pass legislation to deal fundamentally with this question of railway revenues and expenditures and the governmental control over them, we now find ourselves in the position where the taxpayers of Canada, in this year 1966, will be contributing \$100 million to what, however they may have been described, is, in effect, subsidization of three successive wage settlements: \$20 million in respect of the 1959 one; \$50 million in respect of the 1960 and another \$30 million in respect of the settlement of 1964.

It is the opinion of the present government, as expressed by the Prime Minister in his broadcast just before parliament met to deal with the railway

strike, that we should not go on subsidizing wage settlements at the expense of the Canadian taxpayers, and no commitment of any description has been made to make any provision from the Treasury in respect of the terms of settlement, which were enacted by parliament in August of this year. In other words, we have imposed upon the railways an additional financial burden by legislation, in the case of the Canadian National, of course, one can say that since parliament has always up to now met their deficit this may be just a matter of bookkeeping. It is not in the case of the Canadian Pacific Railway, because under the present economic concepts of our society, under which we are operating, the Canadian Pacific Railway is a private person like any other but bigger than most others. What we are saying is that we are telling the CPR by law to pay their employees money that does not belong to the Treasury of Canada—it does not belong to the taxpayers generally; it belongs to that company—beyond what they were willing to do, and we make no commitment to give them any redress for doing that.

Now, the railways have repeatedly told us they believe that if they can be given the kind of freedom that is embodied in the proposals in this bill, they can conduct their operations in a business-like way and have a reasonable prospect, in the case of the Canadian Pacific, and even in the case of the Canadian National, so far as their freight operations are concerned, of making the operations viable without additional drains on the Treasury.

Now, it is true that in the bill we propose to continue this \$100 million for the first period of fifteen months. If the bill comes into operation on the 1st of January, 1967, for the next fifteen months we propose to continue the \$100 million subsidy in respect of wages, plus another \$10 million in respect of certain other things, like the bridge subsidy, which are being englobed in this so-called transitional subsidy. Then, at the end of that period, starting on the 1st of April, 1968, and in each successive year thereafter that transitional subsidy will be reduced by one-eighth, or 12 1/2 per cent.

At a certain point, of course, the specific payment that will be made to the railway for specific national services we are imposing upon them in this bill will come into play, and at same period—perhaps about five years afterwards—the new payment to the railways for these specific services will probably equal what is left of the transitional subsidy and it will stabilize somewhere at that point.

Now, if this legislation is not adopted by the 1st of January, the railways are going to be faced with the critical situation of having to provide this very substantial increase in payments to their employees with no change in the circumstances under which they are enabled to provide for that payment. This I regard as the most substantial reason why it is really very important, if it can possibly be done, to get this legislation passed before the end of the year.

Then, as we all know, the Canadian Pacific Railway as an entirely voluntary act, has undertaken, beginning on the 1st of January next after the passing of this legislation, to give up over a three-year period its immunity from taxation on the main line in western Canada. Now, this is a voluntary act that we have under the constitution, as I am devised, no power anywhere in Canada to compel them to do; that we would have to go to Westminster and get an amendment to the constitution in order to obliterate that immunity that they now have and that they have agreed voluntarily to give up. I know that the

governments of the three prairie provinces, because they have made repeated representations to us about this matter—and I am quite confident that the municipalities affected are in the same position—are very anxious that this provision should come into operation on the 1st of January next year, which it will do if this bill should be passed even as late as five minutes to midnight on the 31st of December. I do not regard this as compelling a consideration as the other one, but it is also somewhat important.

We have also decided as a government to require the Canadian National Railways to start treating the crown-owned railways—I think hon. members of the committee all understand, but perhaps I should just explain this for the benefit of others who may be here. The Canadian National consists of two kinds of properties. There are railways that were built by the government originally and that are owned by the Crown in the right of Canada. There are other railways like the Canadian Northern and the Grand Trunk, the Grand Trunk Pacific and a lot of small ones, that were built originally by private companies which went bankrupt in one way or another and were taken over and incorporated into the Canadian National system. Now under the law, these railways have never become the property of the Crown; they are the property of the Canadian National Railway Company—I am not sure that I have got the exact terminology, but I think I am right—and therefore they are subject to taxation like any other corporation, but under the constitution the Crown, in the right of Canada, cannot be taxed by provincial or local governments. We have decided that as soon as this legislation is passed, and the Canadian National is put in the position that Mr. Gordon has said he believes it would be in, to operate in a more business-like way, the Crown should not continue to give the railway the benefit of this immunity. Now this affects almost every municipality on the main line railway from St. John's, Newfoundland, to Transcona, Manitoba, and it is therefore a matter of no little importance.

I do not think that the government would be warranted in imposing this additional charge upon the Canadian National, added to the charge we have already imposed upon them by the legislative wage settlement, unless we do what they themselves feel would be necessary in order to improve their earning position to meet this problem. I think, therefore, that this is an important collateral consideration. It is not directly, it is true, a part of the bill, but it is directly related to the progress of the bill. The other thing is that—and perhaps I will be regarded by my colleagues in the committee as being patronizing in saying this, I hope I will not, it is certainly not intended in that way—I do think there is a general feeling in the country, I hope members of the committee and I hope other members of parliament share it, that the public would view us better if we could proceed in a business-like way to get some of the most important business of the country done in the present session.

There is not, I am sure, any more important piece of legislation before parliament, not even the Bank Act, which I do not wish to disparage in any way but which is, after all, just a revision of existing legislation. This is a fundamentally revolutionary change that is being proposed here. We are proposing for the first time since 1903, when the board of railway commissioners was first established and rates were set for practically all kinds of railway activity, to put the railways in a position of running themselves like any other business does except in the areas where they have a monopoly. Now I think an

awful lot of us, even in parliament and a lot more of our constituents in some parts of the country have found it hard to get the implication of that concept—I do not think through their minds, because we are all intelligent enough to do that—into their habits of mind. It is awfully hard, if you are an adult, to change your habits very easily. I have found it rather hard to do that. I have tried occasionally but it is a difficult thing.

● (11.10 a.m.)

I have been forced into environments which have made change, sometimes, pretty desirable. I do think that it is really quite important in the consideration of this legislation to realize—I am not talking at the moment about the Canadian Transport Commission; I am talking about what is, after all, the most urgent, in the temporal sense, in the sense which we debate in the House of Commons, and whether it is urgent to debate today rather than tomorrow—that the most urgent parts of this bill are the changes to the Railway Act. I am not saying that the Canadian Transport Commission may not be just as important because I think it is just as important, but if it were not established for another six months—and I think it is going to be an improvement when it is—I do not think the public interest would suffer greatly. But, if the provisions of this bill with respect to the railways cannot be enacted in this session and in this present calendar year, I do think that the government, parliament and the public are going to be faced with problems that they do not need to face. This bill, once it is enacted, will put the railways in a position to solve these problems themselves.

Now, having said that, I think I have dealt with urgency, perhaps, as adequately as I can. I could give a lot of minor reasons but I have tried to give the major reasons why I think it is urgent to deal with this bill in this session. Now, Mr. Chairman, it would be disrespectful of me, as a witness, to labour this point, but I do not think it will be possible for the committee to complete its consideration of this bill if we do not stick to the bill. I do not think we should allow ourselves to be diverted into avenues of inquiry, however interesting, however important, however fundamental they may be, that are not strictly before the committee at the present time. I would, as a fellow member of Parliament, as a member of the government having a responsibility, appeal to the members of the committee on this point.

I think, perhaps, I might make one or two observations about the bill itself that may be a little gratuitous but will, perhaps, help us to focus attention on those things on which there seems to be the most public interest. I have been very gratified by the general degree of acceptance there does seem to be for the concept of the Canadian Transport Commission. I was really quite apprehensive about the reception this proposal would get, not so much from Parliament but from the public generally. I think there was a very understandable fear that what might emerge would be a colossus that would be very difficult to deal with. I have the impression that the explanations given of the bill and the provisions of the bill itself seem to have convinced most people that what we are likely to achieve is what we certainly want to achieve; that is, a much more flexible and much more approachable organism than we have at the present time. I have nothing else to say about that in my initial presentation.

Having said what I have about the broad scope of the provisions with respect to the railways, there are a couple of subjects on which I would like to

make one or two observations, the first being the branch line situation. I do think that the patience and the hard work that have been put into trying to resolve this problem and secure what our colleague, Mr. Alvin Hamilton, referred to in the House in debate as a consensus, has really been pretty successful. I have the impression that the map, which I apologize for not having ready before the bill was given second reading—and I thank my colleagues in Parliament for giving the bill second reading without having received it—on the whole has been very well received. Obviously, some of the people along the lines that are not guaranteed are not going to like it very much. If any line is abandoned it is pretty certain someone is not going to like it. I think the rather general apprehension which existed has been largely dissipated by this guarantee. I do think it is important now, because of the additional costs that are being thrown upon the railways for other reasons, to make it possible to get on with the relatively limited abandonment that will be permissible if the railways can make a case. I want to emphasize again, that the railways cannot abandon any of these 1800 miles of lines or any other lines, in any other part of Canada, without making a case either under the present law or under the new law, once the new law comes into effect. It is quite important to the general financial structure of the railways that we make it possible for them to get rid of any of these redundant expenditures that they possibly can get rid of so they do not have to be reflected ultimately in increased taxation or increased burdens imposed in other ways upon the public.

I want to say a word about the Crowsnest rates. It is probably unnecessary because I went into the matter half a dozen times and I do not think I could have been more categorical, but I do not think the record would be complete if I did not say it again: that there is no intention whatsoever of making any change at all or permitting any change to be made in the Crowsnest rates. All that this legislation will provide is that for the next three years we will cost this matter—and when I say “we” will cost it, it will be done by the new Transport Commission, if it is established—and if there is a net cost that is not met by the revenues then the railways will be reimbursed for it; if there is not, there will be nothing to reimburse. But, at any rate, we are not accepting on faith what the MacPherson commission estimated several years ago, and the transitional grant will certainly take care of any problem the railways may have in the meantime. By the end of the three years we should be in a position to know what the real facts are. I think it will be a great advantage to have the facts in order to take this out of the realm of faith into the realm of fact. I know there are some people who have lived by this faith for years. It may be rather psychologically difficult to have facts substituted for faith, but I think most of us would feel that where facts are available it is preferable to have them.

● (11.20 a.m.)

I would also like to say a word about the only two aspects of the bill that affect the Atlantic Provinces. Before I do that, I want to make it quite clear that the Maritime Freight Rates Act is unchanged, unaffected, in any way by this legislation; it is in full effect and operation and nothing connected with it can be changed except by a separate Act of Parliament. There will be no such legislation introduced by the present Government until such time as the Atlantic study on transportation, which is now going on, is completed, and until the government has considered that and has made public any recommendations

it may have, if any, to deal with this matter. So that it is not an issue in any way and the freeze, the roll back of 1959, is to be continued in the Atlantic Provinces for another two years, which means that for two years the maximum rate formula, therefore, will not apply because the existing freeze will apply. The reason that this is not made indefinite—I think I should explain because I do not think I did in the House—is this. By the end of the two year period from the time this bill comes into effect we should have had plenty of time to examine the results of the study, and if some special action is then required it can be taken. If it is not, the new maximum rate formula will then apply to the Atlantic Provinces as it will apply immediately to the rest of the country. This roll back will be quite irrelevant and by that time, of course, we will have had two years experience of the operation of the maximum rate formula and, therefore, we will have a much better idea of what its effect is likely to be. The one other thing that affects the Atlantic Provinces, in this Bill especially, is something that has never been done before, and that is the underwriting of the so-called 'At and East Rates', which are the rates on grain between the lakeports and ports from Montreal east, including and being of particular importance to Halifax and Saint John. According to the Board of Transport Commissioners, these rates are already unremunerative. In the year 1966 the railways already have been paid some compensation for maintaining these rates. We have decided to keep those rates at their present level and to pay compensation for doing so. This is because we feel there is an equal obligation in this field to the obligation with regard to the Crownsnest. The purpose of this is to ensure that we will have rates which will provide some inducement and incentive to shippers to use the facilities of the Atlantic ports. This might be a debatable question but, at any rate, it is the policy embodied in this bill and I think, on balance, when we consider the terms of the Atlantic Development Board study on the ports of Halifax and Saint John, as to the effects of the increased St. Lawrence transportation, it is one very desirable offset in that field.

Now, I think one other matter I ought to mention, which is undoubtedly going to be—of course, I should not predict; I should remember that I made a vow when I became a politician that I would be a politician and not a prophet—what I suspect is likely to be the most contentious issue in this bill, and that is the proposed maximum rate formula. Therefore, I want to say a little more about that, sir, than I have about any of these other aspects of the bill itself. The maximum rate formula will apply only in situations where there continues to be a genuine monopoly and where that monopoly situation has not already been met by negotiation between the railways and shippers. Now there are a great many commodities, as members of the Committee know, in all parts of Canada that can only be transported economically by rail, and probably, the most important of all is still wheat; there is a monopoly situation there and of course it is dealt with by the Crownsnest rates, and now by the 'At and East' rates as well. Most of the other bulk commodities, so far as I have been able to discover, that are shipped in large quantities in this country are already covered by rates which have been negotiated in one fashion or another between the railways and the shippers or are subject to commodity rates which are lower than the existing maximum rates and, therefore, though they do represent a monopoly situation, although it could be argued that they are captive

shippers, they are not the kind of captive shippers that are envisaged in respect of the maximum rate formula, because the maximum rate formula will be applied only to those shippers who do not make a deal themselves with the railways. The railways—and I think perhaps sometimes there has been some misunderstanding of this—will not be obliged to charge the maximum rate to anybody; they will be perfectly free under this legislation to give rates lower than the maximum rates. So, one of the most important questions I think we should get into perspective, in considering this maximum rate formula, is what the scope of it is going to be, just what shippers and commodities are really going to be affected by it. I think that will be one of the tasks that this committee will be quite anxious to undertake when examining the railways, shippers and others. Perhaps it would be a useful subject to discuss in these general sessions prior to considering the clauses of the bill.

● (11.30 a.m.)

There is one thing that I think we ought to consider carefully. Let us not pretend; let us not live in a dream world because there is a great deal of controversy about whether this maximum rate formula that was recommended by the MacPherson Commission is properly constructed. Let us ask ourselves if it is not properly constructed, who is going to construct one that is proper. The previous government and the present government were both prepared to put it into legislation and we have put it into legislation, not because we think it is perfect but because the previous government did appoint a very eminent commission headed by one of the most experienced men in this field and with a great deal of expert assistance to advise the government precisely on this and other related questions. I think we should ask ourselves the question, is a parliamentary committee going to try to turn itself into another royal commission to try to find another formula that will be better than the one that was recommended by the experts appointed by the previous government. I am trying to get this question into some kind of perspective. Have we the capacity, here, to do that? Now it was precisely because of this difficulty that controversy has arisen and many eminent people have expressed doubts about this formula. Some people have not expressed doubts but have said that the formula is a bad one—thereby substituting their authority for somebody else's authority. I would be very pessimistic myself about my own capacity—even if I could devote all my time to this question, and no other question—to reach a better conclusion than Mr. MacPherson reached. I ask members of the committee to think about this proposition. The government has, of course, made certain changes, not in the formula itself but in the application of the formula, which I believe do ensure against any very serious consequences arising, even if the formula, one day, may have to be changed. The change of most importance, by far, is that we are to have a review of the operations of the maximum rate formula, just as we are to have the costing study of the Crowsnest, to find out what the facts really are in relation to the actual people who turn out to be the captive shippers, who are subject to the maximum rates. One of the great difficulties about providing any kind of sure information about this is that we do not know and nobody can know, until it comes into operation, who these shippers will be, which shippers will be able to make a bargain with the railways so they are not subject to the formula and which ones will not. I think we can reasonably presume that those shippers who have already made bargains with the railways, who are already

not subject to the maximum rates will continue to make their own bargains. If they have the capacity to do it under the existing law, I do not see why that capacity would suddenly disappear because a new formula was substituted. I think we should take that into account. I do not think there is any subject to which I have given more agonizing consideration over the last two years and particularly over the last six months than I have, precisely, to this question; it is a very difficult one. As I say, we can proceed, it seems to me, in one of two ways. One way is to accept the view which two governments have successively appeared to be willing to accept, that having appointed this royal commission, having received this advice, having provided the best kind of insurance that we will not be stamping on the country, for an indefinite period, something that works injury to someone, we go ahead and accept it. The other way is to try to substitute our individual or collective wisdom to that of the royal commission. Those are the choices. I think the choice is before us and, as I say, the government, after a lot of consideration, decided to do what the previous government had also apparently decided to do, according to what we were told in parliament, to accept the advice of the MacPherson commission. I think I have tried to put this question in perspective.

I would now like to say a brief word, and then I will finish, about two other aspects of the bill not related to the railways at all; that is, the provision in the bill whereby the Governor in Council may, if he wishes at some subsequent date, bring international and interprovincial highway traffic or certain aspects of it, maybe not all of it, under the control of the Canadian Transport Commission, instead of leaving it, as it is at present, under the control of provincial agencies which are given their power by parliament but which have no power given to them by legislatures because the legislatures have no right to give them this jurisdiction. You, sir, may not have heard from the Canadian Truckers' Association but I have. Indeed, they made a very interesting presentation to me yesterday, and I explained to them what I think I ought to explain to the committee. I think this is just an amplification or perhaps not much more than a repetition of what I said in Parliament; we do not really think that there is any point in taking away from these provincial agencies any aspect of jurisdiction which they are exercising effectively at the present time. Our view is that it is only to meet problems that are genuinely interprovincial or that are generally extraprovincial, perhaps I should say, that the commission should be asked to operate. Moreover, if ever there was a place for co-operative federalism this is the place. Certainly, the present government has no intention of taking over any of the highways. Without federal control of the highways, I think it would not be beyond the imaginative capacity of any member of the committee to see a dozen ways in which a resolute provincial government and a willing provincial legislature could frustrate, completely within their jurisdiction, most kinds of jurisdiction that we would seek to impose upon this kind of traffic. Therefore, this is an area in which, if action is to be effective, we simply have to have a willing co-operation. It is only on that basis that we intend to proceed at all. Certain difficulties have arisen. There is litigation now before the courts which, if it issues in a certain way, will probably leave a vacuum in this field. It did seem prudent, therefore, when we were bringing this comprehensive legislation forward, to make a provision which could be used if an emergency suddenly arose, without having to legislate specially for the purpose.

Now, there are in prospect, pipelines for commodities other than gas or oil. Gas and oil pipelines are already provided for under the National Energy Board and the National Energy Act, and there is no intention of disturbing that at all. But it does appear that pipelines for other purposes are going to become a new form of transport of some consequence in the future, and there is no jurisdiction anywhere, of a general character. It just seemed a sensible thing, in order to economize the time of parliament, to have the basic provision made at this time.

● (11.40 a.m.)

If I may say so, sir, I believe it would now be more sensible for me to stop talking and to subject myself to questions at this point.

The CHAIRMAN: Thank you, Mr. Pickersgill. I would bring to the attention of the members that the Deputy Minister and his officials are here to answer questions. They are making no statements but they are here to answer questions for the assistance of the Committee. Also, I intend to practice the restraint we practised in our former hearings of limits on the time of questioning and to use the rotation method as we have in the past hearings on passenger service.

The first questioner I have right now is Mr. Rock.

Mr. ROCK: Mr. Pickersgill, this is a simple question and it is but to try to understand what is a monopoly and what is not. I am a little confused about the fact that immediately after the railway strike the C.P.R. did serve notice to raise the commuter rates in the lakeshore area of Montreal, yet I do not think they have attempted to raise any of the freight rates. Is this commuter service a monopoly or not? In a sense, according to this legislation, it is not and yet they have gone up to 40 per cent and higher in their intended raise. I am afraid that if in this legislation, you leave the railways free, as is supposedly intended in the legislation, then I believe that you are putting them in a more monopolistic position than ever before in regard to commuter service.

Mr. PICKERSGILL: I do not believe—and Mr. Baldwin or Mr. Cope will correct me if I am wrong—that under the law as it now stands or as it has ever stood, there has been any attempt to regulate passenger rates.

Mr. R. R. COPE (*Director of Transportation Policy and Research Branch, Department of Transport*): The Board of Transport Commissioners prescribes maximum rates.

Mr. PICKERSGILL: It does prescribe maximum rates? It just shows how wrong I can be.

I would be very surprised to discover that there were any commuter services in this country that had a monopoly. After all, commuter services are services in great metropolitan areas. The only two I am at all familiar with are the ones in Toronto and Montreal. You can see the trains from a six-lane highway in Montreal, a highway on which a lot of buses travel, and they are now getting a 12-lane highway in Toronto. It would not appear to me that this could be a monopoly situation at all.

Mr. ROCK: This is exactly what I am getting at. I know it is not a monopoly situation but in fact if this legislation goes through you are giving the railways a free hand in raising their rates, as they have intended to do, and away above

the raise that has been granted, which is a guarantee of 18 per cent in a matter of two years until a settlement is actually made. Instead of the railways going up to a level of 18 per cent or 20 per cent they went up as high as over 40 per cent. This legislation is going to give them a freer hand.

Mr. PICKERSGILL: This legislation will not affect their situation at all. The maximum rate formula and the captive shipper formula are basically relating to freight and the whole question of dealing with monopolies in this legislation relates to freight and to freight only. It does not affect passenger service in any way. There is no proposal in this bill to change whatever the law may now be with respect to passenger rates. Perhaps that is why I did not know what the law was, because this is quite beyond the scope of the bill.

The railways, as you know, have made application to increase their competitive freight rates, which they had a perfect right to do, and also to increase their agreed charges.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, I have one question that comes out of the Minister's remarks. Before I ask that question I would like to say—because the Minister has given us some of the objectives of the Committee and has suggested that we might take certain courses of action—that the tenor of his remarks seemed to be that we should try to narrow down our discussion. I feel that this is not going to be easy, of course, and we must give everybody a chance to make their appearances. There must be no restriction whatsoever on anything that any witnesses may want to put forward because it is so difficult, as everyone on the Committee knows, to determine where one aspect of the legislation begins and where it ends. In so far as the Maritimes are concerned the Minister said the Maritime Freight Rates Act is unaffected. We are waiting for the full transportation hearing there. The implication is that the new legislation does not affect the Maritimes, but it is not quite that easy.

Mr. PICKERSGILL: If I appeared to imply this, Mr. Bell, it certainly was not my intention. I just wanted to make it very clear that just as the Crowsnest rates were not affected by this legislation neither would the Maritime Freight Rates Act be affected.

Mr. BELL (*Saint John-Albert*): I am only pointing out the difficulty one does get into in trying to separate what is new and what is old around here. It is not a full new inquiry; we know that, but, for example, with respect to the Maritimes, I know that the Minister has already talked of continuation of protection to the ports of Saint John and Halifax. Already we have changes in water conference rates and I am sure that it could be proved that they were not passed as a result of this new legislation, but the opportunity now presents itself and they take advantage of changes. This is only mentioned, as I say, to point out that we must give everybody a full opportunity to make their case.

The Minister mentioned this business of the experts determining, for example, the maximum rate formula and that we should not get into this field ourselves. I think we should know from the Minister what is going to be available in the way of experts for our consideration in this regard. I know the Board of Transport Commissioners have their staff and that they are available and that the Department of Transport will have their staff available. What is

the story? We have been tossing this question of hiring independent experts around now for quite awhile; and I think we should have the Minister's thoughts in this regard.

The CHAIRMAN: The experts we discussed were with respect to passenger service but you are asking now with respect to something else.

● (11.50 a.m.)

Mr. PICKERSGILL: Well, I think if Mr. Bell is just referring to the maximum rate formula, we of course had to take certain steps in the government to satisfy ourselves that the recommendation made by the MacPherson Commission was not a foolish recommendation. Moreover, we put it in almost unchanged from the report in the original bill—Bill No. C-120. A number of representations were made about it which led us to change the definition of captive shippers, which led us to change the application of the formula as it respected shipments larger than 30,000 pounds; and we also proposed a statutory provision that the operation of the formula should be carefully reviewed over a five year period to see how it actually does work. These changes were, in part, the result of suggestions we had already received after the Committee hearings and the publication of the previous bill. We then had to make up our minds, as every government does at a certain point, what it is going to put in a bill. As I said earlier, we decided in the case of this bill this time that the acceptance of the second reading of this bill was a matter of confidence—I make that quite clear in the House—and I am happy to say that although somebody said it was passed on division, there was not even a formal division taken in the House. I am not trying to make anything exaggerated of that but if we are ever going to get an act passed which is a government measure, the government at a certain point has to say, well, we have done the best we can to make the best possible recommendations and this the result. Up to now we have not seen any further improvement. If some improvement can be made that we are convinced we can live with, I assure you it will be proposed. What I was trying to say earlier was that what the committee would have to ask itself, if it tried to change the basic formula itself was not whether we had a right to do that, or a right to try to do it, but whether we were likely to be able to give the matter enough study to be likely to come up with a better formula than the formula that Mr. MacPherson and his associates had recommended when that was their exclusive task. After all, they were considered by the government of the day to be especially competent to perform that task, and they had a degree of technical help that it is not really possible for a parliamentary committee to duplicate. If, of course, someone can demonstrate, notwithstanding all that authority, that this maximum rate formula is a foolish thing or an unjust thing, then I think the committee would have a duty to reject it. The government would, perhaps, look a little foolish for not having been bright enough to see in advance what was brought out in the committee, but I would rather look foolish than have bad legislation.

Mr. BELL (*Saint John-Albert*): Well, I just want to make this one point, because I think it goes to the bottom of our problem in these committee hearings. Consumer Credit, for example, is meeting now and some of us were on the committee. Now, the other day we started our hearings and the deputy minister of Finance and others put forward the contentions of the government,

not into policy but their general thoughts on this, and our next witness was a very expert economist, separate entirely from the government, from the University of Toronto, and he was a good witness and I do not mind admitting that most of his points agreed with the government. But here we did have an expert outside witness. We really have not got that in this type of hearing. You have the provinces with their experts, but we have no available independent experts in this subject whatsoever, and I leave it at that.

MR. PICKERSGILL: Well, after all, is there not an essential difference, and this is really the point I was trying to make, Mr. Bell, and perhaps I did not make it very clearly, there is an essential difference between what you are trying to do on that committee where you have been asked to conduct an enquiry by parliament. A parliamentary committee has been asked to do the same kind of thing that Mr. MacPherson and his associates were asked to do, to enquire into a problem. The government has taken no position with respect to that matter. The deputy minister appeared as an expert; he did not appear to set out government policy. The government is not asking parliament to accept any measure in that committee at all. It is using a mechanism, a parliamentary committee, as it has often been used, and I think they ought to be used more often to elicit facts on which policy can be based. Now, we went through this twice with respect to this legislation, once with the MacPherson commission and once with the parliamentary committee when I had the bill killed a couple of years ago. All I was trying to get before the committee is the fact that now we are faced with a different problem. We have a bill, which is a government measure according to our parliamentary system, which has been accepted by the House of Commons in principle, and it is with this bill that this committee has been delegated by parliament to deal, and not with the conduct of a new enquiry into the subject matter. That is the only narrow point I was trying to make.

MR. BELL (*Saint John-Albert*): I will ask my question now with those reservations about the narrowness of these hearings and the need at some stage, possibly, for independent experts. Now, the minister said in his remarks, as I recall, that there was \$100 million now involved in wage increases as subsidy coming from the Treasury to handle these three previous wage increases. Then he further suggested that there has been no commitment out of the Treasury for the monies that may be necessary for the recently passed wage increases. What I want to ask is, and it was not clear at the time, what happens to the \$100 million? He did not qualify this by saying that the roll-back in so far as the Maritimes were concerned will be preserved in order to wait until the Transportation hearings—that is the 1959 rollback—but I want to know what happens now to the \$100 million.

MR. PICKERSGILL: Under the bill the \$100 million plus \$10 million made up of the bridge subsidy and the "At and East rate" subsidy which add up to another \$10 million, and which has nothing to do with wages at all. The bridge subsidy is to be phased out under this bill over a three year period. That is another change from the previous bill which was made as the result of representations. The "At and East" subsidy will go on indefinitely, so that the \$3 million will presumably continue for a long period. This \$110 million is to be paid as an interim subsidy next year—I am making the basic assumption that this bill comes into operation on the 1st of January—and a quarter of it for the first quarter of 1968. Then for the next fiscal year the \$110 million would be

reduced by one-eighth, by $12\frac{1}{2}$ per cent, and the next year it would be reduced by another $12\frac{1}{2}$ percent of the original \$110 million, not of the residue, and so on until the transitional aspect of it would disappear.

Mr. BELL (*Saint John-Albert*): This is important, I feel, because this is the crux of the money aspect of it. What is to stop the railways from recovering under the new legislation more than just the present new increase?

Mr. PICKERSGILL: Well, I think you can provide a wonderful railway service, but if people will not use it you will not recover anything. The only person who might have to pay exorbitant rates on the railway is the person who can not travel some other way or the person who can not ship his goods some other way. If the railways were to try to increase their rates too much, well, the truckers would just come and take all the business; or where there is water transport someone will build ships to take the business, and this is why we were convinced by Mr. MacPherson—and so was the previous government—that we no longer need to regulate rates where there is effective competition. But we do not intend to leave that segment of the Canadian population, which does not have available to it effective competition, at the mercy of a hold-up—that is really what it amounts to.

Mr. OLSON: Mr. Minister, in your introductory remarks I find a large measure of agreement with some of the things you had to say and, I suppose, some disagreement with the other things that you had to say. You suggested that the committee could probably best discharge its responsibilities by staying with the provisions in the bill that after all, as you say, have been passed in principle by parliament.

Mr. PICKERSGILL: I think I said the scope of the bill. You have limited it a little more than I intended to.

● (12.00 noon)

Mr. OLSON: I agree with that, but I also believe that if the committee is going to discharge its responsibilities properly, particularly with respect to the maximum rate formula, that we need to know what is in the bill, and while you made a point of this matter of the construction of a maximum rate formula to the effect that you had, perhaps, the most competent body that has been assembled in Canada recently to write this formula, I wondered, if you disagree with it, who is going to write a different one. We get back to this same thing of trying to understand what the maximum rate formula actually means, and by that I mean not only the words that are in the bill but what it means when you calculate it in terms of dollars and cents when you come up with a rate. I agree with you too, sir, that I have some horror of repetition but I feel I have to repeat requests until I get an answer. I have asked two or three times for some of the costs, the variable costs, that would go in to making up this maximum rate formula and so far I have not been provided with any samplings of these variable costs that would be applicable if a maximum rate formula was to apply. I did provide, during the course of the debate in the House of Commons, some specific examples that may, or may not, be considered captive shippers under different definitions of a captive shipper. As far as I am concerned a captive shipper is probably someone who has to ship by rail, not because it is physically impossible to ship by some other means but because the economics of it are so completely beyond what the railroads could do with the same

commodity, from point A to point B. Section 336 of the Bill is all related to the variable cost of the carriage of goods and an amount equal to 150 per cent of the variable cost. This is what the maximum rate will be if there is no provision, or no agreement by negotiation between the railway and the shipper.

Mr. PICKERSGILL: And the shipper who is in that position.

Mr. OLSON: Up to now we have no idea whatever what this variable cost of any specific item may be. I think you would have to agree, if the committee is to do its job properly, that without knowing this in advance, it is like buying a pig in a poke. We cannot tell what the end result of the calculation will be unless we know what factors or what specific amounts are going into the formula. I would hope that you could perhaps give us an undertaking that these costs, these variable costs as the railways see them at the moment, will be provided. And, failing that, if the railways are reluctant or unable to provide these variable costs for the carriage of these goods, could we, at least, have an undertaking that very soon, in fact almost immediately, if it is possible, the Board of Transport Commissioners would give us some of these variable costs so that we could then calculate what 150 per cent of a variable cost is on a specific matter between two points that have been suggested and see what it is going to be in dollars and cents.

Mr. PICKERSGILL: Would you mind if I answered that question by reading a document without identifying the document? If the committee push me hard, I will perhaps, identify the document but I would rather read part of it first without identifying it.

We do recognize that in order to set maximum rates under the proposed law—

Mr. BALLARD: Mr. Chairman?

The CHAIRMAN: Yes.

Mr. BALLARD: Is the Minister, in reading this document, expressing or indicating, that he is in complete agreement with the content of the document?

Mr. PICKERSGILL: Absolutely.

Mr. BALLARD: Absolutely?

Mr. PICKERSGILL: I wrote it.

Mr. BALLARD: Mr. Chairman, on a point of order, I want the Minister to take full responsibility for it or to—

Mr. PICKERSGILL: Oh, I take the full responsibility for it. The document I may say, is signed by the Prime Minister but I did not write it and he was good enough to take the responsibility for it and I am quite willing to share that responsibility fully, not in any nominal sense. But the plain fact is that it is an answer precisely to Mr. Olson's question and it was very precisely framed because the question has been raised by others and because I felt it was likely to be the most important single question raised about this bill. It is so highly technical that I felt I wanted to come here armed, in this respect, and not just to speak off the top of my head the way I have been doing about these other things with which I feel I have a little more familiarity. So, with that prelude I should say we do recognize, that means the government—

—that in order to set maximum rates under the proposed law, information will be required by the proposed Canadian Transport Commission in respect of those who, according to the definition in the bill, establish themselves as captive shippers and apply—

And this is very important, this next phrase—

for the application to them of the proposed maximum rate formula. . . Any shipper who is not now paying the maximum rates—

That is class rates.

—permitted by the present law would presumably not fall into this category since the circumstances under which the railways have set rates lower than the present maximum would presumably continue to apply.

In other words, if you can get a better rate than the maximum rate now, I cannot see why changing the formula would put the shipper in a different position vis-à-vis the railway. Now this, I am not actually reading; if we could be given typical examples of shippers now subject to maximum rates—that is, class rates—permitted under existing legislation who would, or would be likely, to fall into the category of captive shippers as defined in this bill, we will have such cases reviewed to see whether any new competitive factors might arise in such cases and if they do not appear to be subject to such factors, we will endeavour to see what information in regard to cost data could be secured for the information of the committee.

It will be appreciated that many shippers who might fall within the new definition of captive shippers may have sufficient bargaining position with the railways to secure rates more favourable than the maximum proposed in the bill. The publication, at this stage, of cost data belonging to the railways—now anything we have that belongs to the government is another matter, but a lot of this does not belong to the Government, we have not got it—which may never be required by the Canadian Transport Commission would alter the relative bargaining position of the parties. It would, however, appear to us in the case of shippers who are now paying class rates, who are now paying the maximum, that unless it could be shown they would be able to bargain more effectively under the new legislation, they are likely to continue to be captive shippers. In those cases, the provision of cost information should not in any way imperil the competitive or bargaining position of the railways, which we feel—I want to emphasize this again—must be strengthened if undue financial burdens are not to be thrown upon the taxpayers. That is the position of the government. I do not want anyone to think that the government is trying to be stubborn or difficult about this because we are not. But let us just stop to think for a minute what we are trying to do, what the objective of this legislation is. The objective of this legislation is to let the railways and particularly the Canadian National Railway, be operated more effectively as a business, so that it will be to the least extent possible, consistent with fairness to shippers, a drag on the taxpayers. That, quite frankly, is what we are trying to do.

● (12.10 p.m.)

Now, what is going to be the situation if we accept this legislation. If we accept this legislation a shipper who would be a captive shipper, in the sense that Mr. Olson described him, that is to say somebody who could not economically ship in any other way but by rail, but who is a big shipper, is going to

have quite a good bargaining position, especially as long as there are two railways, and if both railways serve him. Most of these shippers do not pay maximum rates now. They are not going to pay maximum rates after the passage of this Bill. But if we force the railways to give all their cost data to those people, the International Nickel, up at Thompson, or Cominco, or some of these people, if we said to the railways you give all your cost data, shippers are entitled to all this cost data, what are we doing? We are at once putting those great companies in a better bargaining position than they now are. We do not want to do that. I do not see why the Canadian National Railways or the Canadian Pacific Railway should give International Nickel a better deal than they might otherwise get by regular bargaining. This is the problem.

But if there is a fellow who is now paying the class rates which are the highest rates, who, in other words, has had obviously no bargaining position with respect to the railways, he is the person we want to protect under the legislation. Once we can identify these people then we can cope with this problem.

MR. OLSON: Mr. Chairman, I would like to ask the minister if he does not think there is some psychological effect to some of these maximum rates and what is negotiated from a maximum rate. For example, if the maximum rate under this law should be established on the basis of a thirty thousand pound car at \$5 per hundred, let us say, the railway could say, "We will not charge you anything like that, we will make you a deal at about \$2.50 or \$2.75 a hundred instead". There is a relationship one with the other, and yet if we do not have any costs so that we can know what the maximum rate allowable is going to be in the first place, these negotiations really have not got very much effect in so far as the costs are concerned.

The point I would like to make is that there may be some very powerful companies, large companies, economically powerful companies, who will be dealing with the railways for a negotiated rate substantially below the so-called maximum rate formula. The question arises again, how much is this above the costs. We do not know the costs. The other point is that in the law there will be the establishment of a rate based on a thirty thousand pound car, with some adjustments, I agree, for what is over that. The other point involved in this is that if almost all of that commodity is shipped in a one hundred thousand pound car and the maximum rate is set on a thirty thousand pound car, and we have no idea of the difference in cost between shipping a thirty thousand pound car and a hundred thousand pound car of the same thing, there is no way under the law—and it is this that we are concerned with, because it is the bill that we are passing—that we can establish whether the railways would be making 150 per cent as a maximum or three times 150 per cent over costs, 450 per cent, if the cost of moving a hundred thousand pound car is very little more than moving a thirty thousand pound car. This law is what is going to establish the maximum rate. If there are negotiations, the psychological effect, if the maximum rate is agreed on, could be great, but we will take something substantially less than that. Should not the committee have some information so that they could know how much the maximum rate formula is going to be in relation to costs before they pass the law?

MR. PICKERSGILL: What you are saying really, Mr. Olson—I am just speculating a little bit—is that we should apply a different regime to the

railways than we apply to any other kind of business. Surely that is going to defeat one of the main purposes of this bill. I would think, to take a specific case, a big captive shipper, who negotiates with the railway, and is not satisfied with the rate offered might, if this law comes into operation, apply for the maximum rate. Then the railways would have to furnish the transport commission with cost data. If the maximum rate is better than the rate he has been offered, fine. But you are asking that the railways now, in hypothetical cases which may never arise, which may never require to be protected, should have their bargaining position weakened with respect to shippers, most of whom, I suspect will be very large companies. When you speak of hundred thousand pound lots obviously you are not talking about terribly small people, because it is not one shipment of a hundred thousand pounds, it is a continuation of shipments of a hundred thousand pounds over a considerable period. What I am saying is, either we make up our minds that we are serious about giving the railways a chance to earn their keep and not be a drag on the taxpayers, or we are not. This is the basic position.

I want to be quite sure that there are not some people with no bargaining power, some people who will be victims of the railway, who will have to rely on the maximum rate formula, who, if we accept it as it is at present, are going to be unprotected. I believe parliament has a duty to protect those people, but I do not think we should do it in such a way that we are going to improve the bargaining position of great companies like the International Nickel Company. I just take it as a random example. Or as an example, let us take some of these new potash mines. I can see no reason why the promoters of the potash mines should get a bargain rate from the railways which is prescribed by parliament. I do not think they should be exploited either. We should have a maximum rate that does not exploit them. What we are really concerned about here is surely to identify the people who are now paying class rates, who now have no bargaining power with the railways, and make sure we protect them.

Mr. OLSON: But what we are also doing, sir, if I may say so, is that we are setting the rules and the regulations under which all of this will follow when and if someone does apply to the transport commission.

Mr. PICKERSGILL: That is right, certainly.

Mr. OLSON: And when we are setting up those rules and regulations and the law under which they will operate at some later date, it seems to me that it is essential that we know what the effect of the application of this law will be.

Mr. PICKERSGILL: As I have indicated here, we are going to endeavour to get information in the case of any shipper who is now subject to class rates. It should not be too difficult. The shippers know whether they are subject to class rates or not. It should not be too difficult at all to get examples of those.

Mr. OLSON: Well, Mr. Chairman, I will have to pass as there is a limitation of time.

The CHAIRMAN: Well, I have been very generous.

Mr. CANTELON: Mr. Chairman, as is usual at these hearings, what I was going to ask has been fairly thoroughly belaboured by now. So I will pass on to something else that I was rather interested in.

Section 16 of the bill deals with the duties and powers and functions of the new transport commission. I am rather curious as to just how the transport board is going to carry out these manifold duties in getting information about its direct assistance to any mode of transport and the operation of the Canadian merchant marine, and in particular the research that it is going to do. I suppose this will take quite a large staff and I was wondering, in the first case, just what kind of a staff was envisaged?

● (12.20 p.m.)

Mr. PICKERSGILL: I think perhaps it would be more helpful to the committee if Mr. Baldwin or Mr. Cope endeavoured to answer that question because the limits of my knowledge is in this speculative field.

Mr. CANTELON: Yes; I thought probably that is what you wanted. Is this the time for me to ask that question?

The CHAIRMAN: I was just thinking that perhaps it might be that when we go over it clause by clause the question could better be answered at that time. Otherwise we are going to be repeating this. I do not want to let it happen once and then be charged with letting it happen once, and—

Mr. PICKERSGILL: I think that is not a bad idea, Mr. Chairman, for another reason, that perhaps Mr. Baldwin and I would like to discuss the answer to this question. It is a proper type of hypothetical question, but it is—

The CHAIRMAN: Mr. McCleave is an observer here at the present time. Mr. McCleave you have a question.

Mr. McCLEAVE: I have two questions for the Minister in the field of policy. The first one I would preface with a brief preamble—

The CHAIRMAN: Mr. McCleave, there will be no statements to your question. That is the rule we have been following here.

Mr. McCLEAVE: Then, Mr. Chairman, I will have to raise it in the House on third reading of the Bill. It deals with the charters of two railways companies, and it is a policy question which I do not find repeated in the present Act. I can put it in one minute. It is not a lengthy thing.

Section 42 of the Agreement with the Grand Trunk Pacific Railway Company in 1903 provided that the through rate on export traffic from the point of origin to the point of destination shall at no time be greater via Canadian ports than via United States port. There is a similar provision in Section 13, Acts of 1911, chapter 6—the Canadian Northern Ontario Railway Company Act.

My first question to the Minister on policy is: Has this policy been abandoned?

Mr. PICKERSGILL: I think this is beyond the scope of the Bill. I would be very glad to consider that question in an extracurricular way.

The CHAIRMAN: I am afraid, Mr. McCleave, that this has nothing to do with the particular Bill that is before us at the present time, so perhaps it might be best to raise it—

Mr. McCLEAVE: Does not the Bill deal with railway rates?

Mr. PICKERSGILL: Not those particular rates. I would be very grateful to you if you would put a question on the Order Paper on this matter because

quite frankly I do not know the answer offhand anyway; but I think it would be very helpful in the public interest to have it.

Mr. FAWCETT: Mr. Chairman, I am not going to take up very much time because Mr. Olson dealt with something that was bothering me a little and that was that there might be undue restrictions put on the railways with respect to this maximum rate. I think the Minister answered that very well. As I understand it now, these restrictions would not be placed on the railroad unless an application were made to the Department. Is that not correct?

Mr. PICKERSGILL: To the Commission.

Mr. FAWCETT: To the Commission, I should say.

Mr. PICKERSGILL: Because the Commission would set the rate and it would be based not on the cost data supplied by the railways but the cost data as determined by the Commission.

Mr. FAWCETT: Just one more question: Do I understand—and perhaps I should know the answer to this—that in the matter of subsidies in connection with the Crows Nest Pass rates the railways companies are compensated on the basis of their actual loss in handling grain?

Mr. PICKERSGILL: You mean they would be under—

Mr. FAWCETT: They would be under this. Under these circumstances how would their actual loss be arrived at?

Mr. PICKERSGILL: Well, perhaps I could give a very brief answer now and then we could consider that further when we come to the relevant clauses.

Over a three-year period, if the Bill is accepted in its present form, the costing will be done. During this period the railways are getting the transitional subsidy anyway, so that they would not get any more if we knew the cost. We will then determine, as best we can, what the costs are, if there are any, and I presume, once that is determined, the necessary provision would be made to meet them. But I would like to have a more detailed answer given when we come to this section of the Bill.

Mr. FAWCETT: But these costs would have to be reviewed from time to time, as I would understand it.

Mr. PICKERSGILL: Oh, yes. They will have to keep them under review.

Mr. REID: Mr. Minister, I was very interested in your comments about competition between competing modes of transportation. However, you come into the area where you have an integrated company like Canadian Pacific which not only has railways, but airlines and by truck and also, as I understand, an interest in water transportation and also in pipelines. Is there really going to be competition between competing modes when you have companies of this nature? Canadian National is in the same boat, too. It may be more convenient to them in many cases to direct traffic into a mode of transportation where they would like to become more pre-eminent; say, in the case of the C.P.R. in the way they would like to move passenger traffic into the airlines where they feel there is a greater opportunity for personal profit to them.

Mr. PICKERSGILL: Well, that is a very big question.

Mr. REID: But it is at the heart of the whole Bill.

Mr. PICKERSGILL: I do not think it is answered by this Bill.

Mr. REID: No, it is not; but this is why I have raised it at this time. I am not getting an answer?

Mr. PICKERSGILL: Well, as I say, it is not answered by the Bill.

Mr. HOWE (*Wellington-Huron*): Mr. Chairman, in the historical review that the Minister gave on the necessity for this type of legislation, we go back to 1959, and you talk about the Freight Rate Reduction Act which was brought in to provide subsidies to make it possible for the railroads to pay for wage increases without raising freight rates.

Mr. PICKERSGILL: That is right.

Mr. HOWE: No doubt recent increases that have brought this up to over one hundred million dollars have been for the same reason, and we have arbitration going on now with the railroads, which might bring it up to two hundred million dollars before it is finished. Well, we do not know just where it is going, but it is a lot more than the present subsidy.

I think the thing that is bothering a lot of people about this railroad legislation—and it is bothering me—is the question that was raised by Mr. Bell: Where does this one hundred million or one hundred and fifty million dollars go? Is it going to be phased out, with reduction of taxation to the taxpayer? If it is done, somebody has to pay for it. It is still there. It is still in the wage bill.

The consumers, or the people who use these people, are very conscious these days of the rising cost of living. We have meetings in Ottawa of the housewives. They must realize that freight rates and transportation costs are built into the cost of every product today. This subsidy is going to disappear—be phased out—but before this hearing is over I would like to know how much this legislation is going to cost the people of Canada. It is going to be taken off the backs of the taxpayers, but what is the difference between taxpayers and consumers?

Mr. PICKERSGILL: Well, even though this is a very big question, would you permit me to make a little statement about it, because I think it does arise out of a very great misconception about what the effects of this legislation are likely to be? I would just like to come back to the basic point. That the real purpose of this legislation is to make the railways more competitive and to increase their bargaining power. Now, the railways have been losing traffic over the last twenty-five years; and not necessarily by increasing rates but perhaps sometimes by cutting rates so that they can get enough more business that they are now losing they can pay these wages and not put a net increase on the consumers at all.

Mr. HOWE: Well, this hundred million dollars is not going to disappear. Somebody has got to pay for it.

Mr. PICKERSGILL: The hundred million dollars is going to disappear, under this legislation, at 12½ per cent per year.

Mr. HOWE: From one hand into the other.

Mr. PICKERSGILL: Well, I mean the only point I can make—

Mr. HOWE: There is other question that I would like to raise with regard to this map. There are railway reductions and abandonments going on and they have been going on for some time, and in that part of Ontario where I live I

would like to know if there is any proposed schedule of rail line abandonment, or if a map, or some idea, could be given by the Minister or his officials, to find out from the railroads just what is going on?

Mr. CHAIRMAN: I will take care of that with the Department. We have certain requests going to them for maps and for different matters. I will make a note of it and have the clerk just follow that up.

Mr. HOWE: One further question, Mr. Chairman. We mentioned the Crows Nest Pass rates, the Bridge subsidy, the Maritimes Freight Rates; there is also a feed subsidy which comes to the farmers in Ontario, the buyers in Ontario and the feed people in Ontario. What is going to happen to them?

● (12.30 p.m.)

Mr. PICKERSGILL: This is a subsidy which is paid to shippers direct from the treasury. It has nothing to do with the railways at all.

Mr. HOWE (*Wellington-Huron*): Will it be continued?

Mr. PICKERSGILL: It is being continued, and I understand the Minister of Forestry and Rural Development is going to be introducing legislation on this matter in the present session. It is not going to be affected in any way by this legislation.

Mr. BALLARD: Mr. Chairman, I believe I gathered from the Minister's remarks in connection with pipe lines that the present legislation is not going to govern existing oil pipe lines and future oil pipe lines, but that it is going to govern solids pipe lines that may be constructed. I do not believe there are any at the moment, but there is research being done at the present time on the transportation of pelletized or capsulized solids through oil pipe lines; in other words, using the oil as a catalyst for removing the solids. How would such a pipe line be considered under the provisions of this act? Would it be considered a solid pipe line or would it be considered an oil pipe line?

Mr. PICKERSGILL: Could I take that question under advisement?

Mr. BALLARD: One other question: Going back to this map that was supplied to us in connection with rail line abandonment, I appreciate receiving it very much, because it sets at ease the minds of a lot of people who were worried about whether they were going to be left without some means of transportation. How did the department decide on what rail lines would be considered for abandonment? Were these as a result of applications that have in the past been made by the railway companies, or did the department arbitrarily decide that these lines could be abandoned within the next few years?

Mr. PICKERSGILL: I think I should tell you that it was suggested to me about a year ago that a lot of work was being done on the essentiality of these lines by people in western Canada, who were greatly concerned about them. It might be possible to reach not total agreement—we never expected that—but something pretty close to a consensus about which lines really were likely to be essential over a period of 10 years. I was sufficiently impressed by what I was told about what was going on that I had the officials of my department enter into discussions with the wheat pools, the grain trade and certain advisers of the provincial governments in western Canada and a number of other people. None

of these people made any commitment to support this, but we did talk to them about it and we did get a tremendous amount of help from them and an insight into what the problems really were.

In a sense, I think you could say at the very end it was arbitrary. Someone had to make a decision if we were going to use this approach—if the government was going to guarantee that these lines would not be abandoned. I had to go to the Cabinet, as I did, and I said: "Here is what I recommend: That we guarantee until January 1, 1975, that these lines be retained and that I be authorized to state that if they are retained and there are losses on any of them we will make the losses up to the railways. For the rest of the lines we will allow the ordinary processes of the law to operate; that is, the other 1,800 miles." That does not mean the railway can necessarily abandon them, but they can make their applications.

It was arbitrary in the sense that every piece of legislation that a government introduces in the end is arbitrary—it is an act of will. But it was not uninformed. It was not capricious. Fundamentally what we did was to look at the traffic.

About two years ago in Parliament I said that the criterion the government was going to use in this matter was not necessarily the profitability of the line but the amount of traffic it was carrying. It may be that, on some of these lines, they can let the maintenance run way down and there is very light traffic and also very light cost. The railway would not regard it as one of their most unprofitable lines. They might prefer to abandon a railway that went through more difficult country and where their costs were higher even though the traffic was higher; but we did not think, from a national standpoint, that that was the right approach. Generally speaking, of course, the lines with the least traffic are the least profitable, but not always. This was the basic consideration.

Mr. BALLARD: I was wondering if this would not be an open invitation to the railway companies to apply for abandonment of these particular lines.

Mr. PICKERSGILL: Practically all of them had already been applied for, and a great many more besides.

Mr. BALLARD: I have one more question. I was very impressed with your attitude, Mr. Pickersgill, when you said that this bill would probably put the railway companies in a more businesslike atmosphere, particularly the C.N.R. I was wondering if any consideration has been made by you to making a recommendation to the government that to complete the transition of putting the C.N.R. in businesslike atmosphere, the capital debt of the C.N.R. be taken into the general complex?

Mr. PICKERSGILL: If you look at the Speech from the Throne again you will see that that is government policy.

The CHAIRMAN: That is another question, Mr. Ballard.

It is my intention to adjourn at 1 o'clock for lunch and to come back at 3.30 or after Orders of the Day. I have three more members who wish to ask questions. Mr. Sherman, Mr. Schreyer and Mr. Southam. Mr. Sherman, you are next.

Mr. SHERMAN: Mr. Chairman, I have only two questions at this point and both of them, I think, can be dealt with fairly quickly by the Minister. The first

one concerns the Crowsnest Pass agreement. It would, of course, be presumptuous of me to try to emphasize to you how important the Crowsnest Pass agreement is in the west. It is one of the—

The CHAIRMAN: Mr. Sherman, if you do not mind, the Minister has already run into the Crowsnest Pass! Can you get to your question please.

Mr. SHERMAN: —most important considerations from our point of view, and the sections in the new bill dealing with it created some anxiety in the west. I know we have repeated unequivocal assurances from you, Mr. Pickersgill, that the Crowsnest Pass rates will not be affected by this bill in any way, but some of us in the west feel that section 329 following section 328—the new sections 328 and 329 in the new bill—that in section 329 there is sort of an escape hatch provided for the assurances that we have been given with respect to the rates themselves. I raise this question because it is of some concern in the west, and I wonder if you could, at the risk of being repetitive, be repetitive once again.

Mr. PICKERSGILL: The Crowsnest Pass rates are established by an act of Parliament. That act of Parliament is not being repealed or amended by this legislation and, therefore, they could not be changed without another act of Parliament. In other words, they are statutory now. Therefore, it seemed to us redundant to pass a second law when there was a law already on the statute books making them statutory, to make them statutory twice. It is just like the Maritime Freight Rates Act. This bill does not affect the statutory provisions regarding the Crowsnest rates in any way whatever. It merely says that if there are losses occasioned to the railways because of the existence of those rates the government can do something about the losses.

● (12.40 p.m.)

Mr. SHERMAN: My second question is as much to you, Mr. Chairman, as it is to the Minister. There is also a good deal of anxiety in the west with respect to the position, in which the C.P.R. is going to be under certain freedoms for rate fixing that it will enjoy under the new legislation. As you will recall, we were exercised to some considerable extent in our hearings with Canadian Pacific Railway earlier in this session on the question of the abandonment of the "Dominion" passenger service over the costing procedures employed by the C.P.R. Some authorities on this subject in my province have given me a pretty firm indication that under the new legislation the C.P.R. is going to be in a position to improve its financial position and to improve its earnings picture on the basis, presumably, of C.P.R. costing techniques. All of us in this committee are very concerned about C.P.R. costing techniques and I ask you whether, in the light of the sort of quasi agreement we came to earlier this morning, that we would move as quickly as possible in the hope of having this legislation enacted as quickly as possible, there is going to be time to investigate very thoroughly this whole question of costing during consideration of this bill.

The CHAIRMAN: When the province of Manitoba presents its brief I am sure that they will bring forward the matter of costing with which you are concerned. We are not finished with our exercise of the C.P.R. passenger service policy; we just adjourned the hearing until this was finished.

Mr. SHERMAN: But the question of costing is involved. It is related here, too.

Mr. PICKERSGILL: Of course, that is the question that was brought up by Mr. Olson earlier, that the only place where costing, so far as freight was concerned,

does arise in the fixing of rates under the new legislation is where there is a captive situation. Wherever there is competition, it is the competition that is going to determine what the rates are. Parliament, from now on, will no longer be fixing those rates and the C.P.R. can charge whatever it can get people to pay and so can the C.N.: But what we are seeking to do in this legislation is to protect those people who could be exploited. That is the problem that Mr. Olson raised and I think I have to give the same answer I gave to him, again.

Mr. SCHREYER: Mr. Pickersgill, to use your own words, I believe you said that the primary objective of this legislation was to enable the railways, the C.N. in particular, to earn its own keep, to stop being a drag on the taxpayers and so on. My question is whether or not there is some obligation on the part of this committee to consider or to open up the Pandora's box of the inherited debt structure of the C.N.

The CHAIRMAN: I will not allow any questions on that subject.

Mr. PICKERSGILL: I think that would be strictly out of order under our parliamentary rules because there is in the Speech from the Throne, if I remember rightly, a reference to the government's intention to introduce a bill to revise the capital structure of the C.N.R. to deal with this very specific point, and that is a part of our policy. Now, I am not going to guarantee that we will be given enough parliamentary time to get right—

The CHAIRMAN: I will have to call the minister to order now, too, on this matter.

Mr. PICKERSGILL: This is a point of order but I suppose I am not entitled to raise one because I am only a witness.

The CHAIRMAN: Are there any other questions on the changes in the bill, Mr. Schreyer?

Mr. SCHREYER: No.

Mr. SOUTHAM: Mr. Pickersgill, part of the subject matter of my question, which was introduced by Mr. Ballard already has been covered. It relates to air line abandonment. I might say that we in western Canada were so seriously affected by this that we are very pleased to see the action recently taken to freeze a large percentage of these lines for the present time. The question also comes to mind that under the original policy we asked the railroads to make application for abandonment with the principle in view that we would rationalize, or that before abandonment took place they would be all related. Why could we not have frozen all of these lines for the present time until we see how the picture of economics changes? I am expressing the fear on the part of some of these people that we might get back to the old piece principle of abandoning a line here and there which does not seem to be practical in the solution of this total rail line abandonment policy. What is your thought on that, Mr. Pickersgill? Are we reverting back to that?

Mr. PICKERSGILL: I think I can answer that question quite simply. We could not freeze all the lines any longer and hope to have the railways ever become self-supporting because some of these lines should have been abandoned before now, and I think that the average person in western Canada knows that. If the railways are going to keep their rates down and not be a drag on the taxpayer

they have to be allowed to get rid of obligations that do not really provide any substantial service. We are already late in getting started on this process but we decided to reduce it to manageable proportions. That does not mean that these 1,800 miles of line are all going to be abandoned; they still have to go through the process of law and prove the need. If you look at this map carefully you will see that there are two or three places where it would be obviously essential to have some measure of rationalization before the board would ever permit the abandonment because the abandonment by itself would make no sense. Both railways have indicated their willingness and, of course, once this bill is through, there will be new procedures for abandonment that will apply which do, in fact, include the concepts of rationalization. That is another good reason for getting the bill through.

Mr. SOUTHAM: I am glad to hear you say that, sir, because, as I said, there has been the fear expressed that we were getting away from the rationalization principle, but this is reassuring.

Mr. PICKERSGILL: No, no. I would suspect that after 1975 it would be more important than ever.

Mr. MACEWAN: I just want to ask a short question here, Mr. Chairman, on the matter of freight rates in the Atlantic area, particularly dealing with section 335. I understand from what the minister said that this freeze will continue, as set out in the act, for a two year period from the coming into force of this act.

Mr. PICKERSGILL: That is right.

Mr. MACEWAN: And when that two year period is completed then the freeze, of course, will be lifted.

Mr. PICKERSGILL: If nothing else is done in the meantime.

Mr. MACEWAN: That is what I am not sure of. I think, Mr. Pickersgill, that you stated in the house, with regard to these acts, that the government has two ways of making changes, by additional estimates or by amendments to legislation or new legislation. If there is nothing done by way of amendment or estimates then, after the two year period, of course, the Atlantic area would be subject to and under the terms of this bill.

Mr. PICKERSGILL: That is right.

Mr. MACEWAN: That is the question I did raise in the House and I raise it now. There is no guarantee after that two year period, what I am saying is that if nothing is done and the bill applies then, of course, the matter will not be referred to parliament again, and the rates will automatically seek their own level.

Mr. PICKERSGILL: The rates to which that freeze applies would then become unfrozen but the new maximum rate formula would apply in the Atlantic provinces as it will in the meantime apply elsewhere in Canada.

Mr. MACEWAN: Yes, that is right. With regard to this study which is being made, I think once when the Maritime Transportation Commission appeared before us when the other bill was before us in 1964, I put a question to one of the representatives, Mr. Cooper or Mr. Dixon. I asked if a study was made would it not take some time to see how whatever act comes into force would

work in other parts of the country and that, therefore, this two year period perhaps would not be sufficient for the present study which was set up by the minister.

● (12.50 p.m.)

Mr. PICKERSGILL: I expect this point to be debated further in the committee. I think it is sufficient and if I had not thought so I would not have put it in the bill originally. We expect to have the results of the study next spring and that would leave us approximately a year and three quarters or a year and two thirds in which to make any necessary modifications and, of course, there is nothing to prevent the government from introducing other legislation in this matter if it seems to be necessary. I would be very surprised if this would lapse without something being done in the meantime but as we do not know now, we cannot know now, what that something will be, it is rather useless to speculate about it. That is the only thing.

Mr. PASCOE: I would like to ask one quick question. Looking at this map of possible railway line branch line abandonments, I notice there are some places, which are in danger of losing part of their branch line, which could be served fairly well by running part way over in the line of another company and then go back to the one company. On page 25, 314D, you say: "In dealing with abandonments the Commission may recommend to railway companies the exchange of branch lines or of running rights". Are you incorporating any more force than recommending because—

Mr. PICKERSGILL: Of course, we could order the Canadian National to do anything we like but it is rather difficult, you know, to put mandatory legislation in about a privately owned company unless you are willing to pay for the service. My own opinion is that there will not be any difficulty whatever about working these things out. If a recommendation is made, the moral force of it is going to be very great.

Mr. PASCOE: Do you think you have some of that assurance from the Canadian Pacific Railway?

Mr. PICKERSGILL: Yes.

Mr. SCHREYER: I would like to ask a supplementary on line abandonment. The Minister stated a few minutes ago that even regarding those lines that were not affected by the freeze, the normal processes had to be gone through before abandonment could take place, but I would ask the Minister if he would not concede that by placing a freeze on certain lines and leaving others unprotected, the department has not displayed its hand. In effect, it has made a mere formality out of the normal procedure for—

Mr. PICKERSGILL: The Board of Transport Commissioners is a court, and I would hate to think that any court would allow itself to have its obligations under the law, influenced simply because the Government has drawn a map.

The CHAIRMAN: I have no other questioners. If there are any questions, I do intend to reconvene this afternoon if it is necessary. If there are no further questions of the Minister, the Deputy Minister and his officials are, of course, here for questioning and clarification of the legislation if it is required. I would like to get some guidance from you at the present time.

Mr. BELL (*Saint John-Albert*): May I just ask Mr. Baldwin, what is the purpose of these exhibits here? I note particularly there is an attempt to prove that there is more competition in the Maritimes.

Mr. BALDWIN: I am not sure what exhibit you are referring to.

Mr. BELL (*Saint John-Albert*): It was given to us this morning.

The CHAIRMAN: It is a repetition of the documents, the same as in 1965.

Mr. BELL (*Saint John-Albert*): In other words, there is no particular connection between the fact that this was distributed this morning and the Minister and his deputy are here?

The CHAIRMAN: No, none whatever.

Mr. BELL (*Saint John-Albert*): I, for one, have no further questions but I do call attention to the point that Mr. MacEwan has brought up. I think it is extremely important. We may have to get on it later. I refer to the inter-relationship between this new legislation and what may come forward as a result of the Maritime transportation study.

Mr. PICKERSGILL: I would think the best time to discuss that is when we get to that clause.

The CHAIRMAN: Would the Committee like to have the Minister, the Deputy Minister and the officials back this afternoon? If not, we will not reconvene today at all and perhaps not even tomorrow. Our first meeting to deal with briefs will be on the 13th, when the C.N.R. will be here.

Mr. REID: Could we have a guarantee from the Minister and the officials that perhaps later on, after going through some of the other briefs, other points of clarification may be required?

The CHAIRMAN: The Deputy Minister and his officials will be here constantly. They will be working in shifts, I understand. As far as the Deputy Minister and the officials of the Department are concerned, they will be here with us every day. They will be here for questioning, to help out the members of the Committee.

Mr. PICKERSGILL: I can answer that I will be very willing to come subject to a little rationing of time because my time is not always my own. I will try to come whenever the Committee wants me.

Mr. PASCOE: Mr. Chairman, could I just make one suggestion. The Minister made quite a full statement. Could we get the report as soon as possible?

The CHAIRMAN: I will discuss this with the Clerk. The office treats us like every other Committee but you can rely upon the fact that I will do everything I can to see that we get it as fast as possible.

Mr. HOWE (*Wellington-Huron*): I have one question that arises out of a news report I noticed in the paper not so long ago. It is in connection with a similar type of legislation having been passed in the United States recently. We have a lot of similar problems in Canada. We do not have the population but we have quite a lot of the same type of terrain, air traffic and rail problems. Would there be some merit in seeing the bill they have passed?

Mr. PICKERSGILL: We have the information on that. If you would allow me a little indulgence I would like to say a word about that legislation in a general sort of way. I understand Bills have been passed in both Houses of the Congress but they are not the same bill. They still have to meet in conference to try to get one bill that both Houses will both agree on. What they are trying to do is what Mr. C. D. Howe persuaded parliament to do in 1936, that is to set up a Department of Transport. They are still going to have various agencies such as the Interstate Commerce Commission, the Civil Aeronautics Board and the Maritime Commission to regulate various forms of transport. In other words, we are just about one generation ahead of them. They are doing what we did in 1936, and we are now trying to establish a single regulatory agency. I think perhaps it will not take them so long to follow our second example if it turns out to be a good one.

The CHAIRMAN: May I say this to the members of the Committee. We will adjourn until October 13 at 9:30 a.m. to hear the C.N.R.

Agreed?

Agreed.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

STANDING COMMITTEE

ON

TRANSPORT AND COMMUNICATIONS

Chairman: Mr. JOSEPH MACALUSO

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 24

THURSDAY, OCTOBER 13, 1966

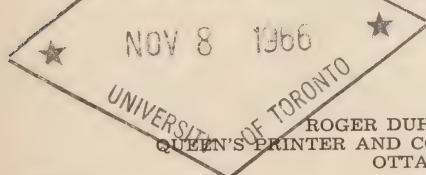
Respecting

BILL C-231

An Act to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and to enact other consequential provisions.

WITNESSES:

From the Canadian National Railways: Mr. Donald Gordon, Chairman and President, Mr. R. T. Vaughan, Vice-President and Secretary, Mr. Norman J. MacMillan, Executive Vice-President, Mr. J. W. G. MacDougall, Q.C., General Solicitor, Dr. R. A. Bandeen, Director of Corporate Planning and Mr. J. G. Gardiner, General Manager, Pricing and Development.



ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE
ON
TRANSPORT AND COMMUNICATIONS

Chairman: Mr. Joseph Macaluso
and

Mr. Allmand	¹ Mr. Jamieson
Mr. Ballard	⁴ Mr. Langlois (<i>Chicoutimi</i>)
Mr. Bell (<i>Saint John-Albert</i>)	⁵ Mr. Legault
Mr. Byrne	Mr. MacEwan
Mr. Boulanger	Mr. McWilliam
Mr. Cantelon	Mr. Olson
Mr. Chatwood	Mr. Pascoe
³ Mr. Deachman	Mr. Rock
² Mr. Duquet	Mr. Schreyer
Mr. Fawcett	Mr. Sherman
Mr. Horner (<i>Acadia</i>)	Mr. Southam
Mr. Howe (<i>Wellington-Huron</i>)	Mr. Stafford

(Quorum 13)

- ¹ Replaced Mr. Hymmen on October 11, 1966.
- ² Replaced Mr. Lessard on October 13, 1966.
- ³ Replaced Mr. Andras on October 13, 1966.
- ⁴ Replaced Mr. Reid on October 13, 1966.
- ⁵ Replaced Mr. Addison on October 13, 1966.

R. V. Virr,
Clerk of the Committee.

ORDERS OF REFERENCE

TUESDAY, October 11, 1966.

Ordered,—That the name of Mr. Jamieson be substituted for that of Mr. Hymmen on the Standing Committee on Transport and Communications.

Ordered,—That, during its consideration of Bill C-231, the Standing Committee on Transport and Communications, be authorized to sit while the House is sitting.

Attest.

THURSDAY, October 13, 1966.

Ordered,—That the names of Messrs. Duquet, Deachman, Langlois (*Chicoutimi*), and Legault be substituted for those of Messrs. Lessard, Andras, Reid and Addison on the Standing Committee on Transport and Communications.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

MINUTES OF PROCEEDINGS

THURSDAY, October 13, 1966.

(41)

The Standing Committee on Transport and Communications met this day at 9.50 o'clock a.m., the Chairman, Mr. Macaluso, presiding.

Members present: Mrs. Rideout and Messrs. Addison, Allmand, Ballard, Byrne, Boulanger, Fawcett, Horner (*Acadia*), Howe (*Wellington-Huron*), Jamieson, Macaluso, MacEwan, McWilliam, Olson, Pascoe, Rock, Schreyer, Sherman, Southam, Stafford (20).

Also present: Hon. J. W. Pickersgill, Minister of Transport, Hon. John Turner, Minister without Portfolio, Mr. Deachman, M. P.

In attendance: From the CNR: Mr. Donald Gordon, Chairman and President; Mr. R. T. Vaughan, Vice-President and Secretary of Co.; Mr. Norman J. MacMillan, Executive Vice-President; Mr. J. W. G. MacDougall, Q.C. General Solicitor; Dr. R. A. Bandeen, Director of Corporate Planning and Mr. J. G. Gardiner, General Manager, Pricing and Development.

The Chairman opened the meeting by introducing the officials of the CNR.

Moved by Mr. Fawcett, seconded by Mr. Rock,

Resolved,—That the Minutes of Proceedings and Evidence of the Standing Committee on Transport and Communications of July 5, 1966 (Issue No. 22), respecting the CNR Passenger service be considered as being included in this day's Minutes of Proceedings and Evidence.

Moved by Mr. Byrne, seconded by Mr. McWilliam,

Resolved,—That the CNR brief which was distributed to the Members, be included as an appendix to this day's Minutes of Proceedings and Evidence (*See Appendix A-11*).

Mr. Gordon made an opening statement, followed by Mr. MacMillan, then Dr. Bandeen.

The Members of the Committee then questioned the officials of the CNR respecting their opening statements and their brief.

At 12.40 p.m., the meeting adjourned until 3.30 p.m. this date.

AFTERNOON SITTING

(42)

The Standing Committee on Transport and Communications met at 3.50 p.m. this day, the Chairman, Mr. Macaluso, presiding.

Members present: Mrs. Rideout and Messrs. Allmand, Boulanger, Byrne, Fawcett, Horner (*Acadia*), Howe (*Wellington-Huron*), Jamieson, Macaluso, MacEwan, McWilliam, Olson, Rock, Schreyer, Sherman, Stafford (16).

Also present: Hon. J. W. Pickersgill, Minister of Transport.

In attendance: Same as at this morning's sitting.

The Chairman informed the meeting that he had obtained the name of a cost accountant, experienced in Railway accounting, who would be available to assist the Committee.

Moved by Mr. Allmand, seconded by Mr. Fawcett,

Resolved,—That the services of Dr. Donald Armstrong of McGill University, and an experienced cost accountant, be retained to assist the Committee in its deliberations.

Moved by Mr. Howe, seconded by Mr. Rock,

Resolved,—That the paper entitled "Summary of Eastern Canadian Abandonment Proposals as of August 23, 1966" be included as an appendix to this day's Minutes of Proceedings and Evidence (*See Appendix A-12*).

And the questioning of the witnesses continued.

At 6.00 p.m., the meeting adjourned until 8.00 p.m. this date.

EVENING SITTING

(43)

The Standing Committee on Transport and Communications met this day at 8.15 p.m., the Chairman, Mr. Macaluso, presiding.

Members present: Mrs. Rideout and Messrs. Allmand, Boulanger, Byrne, Fawcett, Horner (*Acadia*), Howe (*Wellington-Huron*), Jamieson, Macaluso, MacEwan, McWilliam, Olson, Rock, Schreyer, Sherman, Stafford (16).

Also present: Hon. J. W. Pickersgill, Minister of Transport.

In attendance: Same as at this morning's sitting.

And the questioning of the witnesses continuing,

At 10.26 p.m., moved by Mr. Byrne, seconded by Mr. Stafford, that the Committee adjourn until 10.30 a.m., Monday, October 17, 1966.

The question being put it was carried on the following division: Yeas 9; nays 3.

R. V. Virr,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

THURSDAY, October 13, 1966.

The CHAIRMAN: Gentlemen, I am sorry for the delay but we have had some mechanical difficulty which has been adjusted.

I wish to bring to the attention of the Committee that we have with us the officials of the Canadian National Railway to present their brief.

Mr. HOWE (*Wellington-Huron*): I would like to ask a question before we start with this brief. This has to do with a question we discussed the other day, namely, the need for some accounting assistance for this committee. We talked about \$100 million or more—

The CHAIRMAN: On a point of order, Mr. Howe, I think we should leave that until after we proceed with the brief.

Mr. HOWE (*Wellington-Huron*): Well I have been reading the brief, Mr. Chairman, and I do not see why at this point we should not deal with the important matter of our having some competent assistance on accounting. We want to know before we make any decisions, what is happening to this \$100 million or more that is going to be phased out. What impact is it going to have on the economy of the country?

The CHAIRMAN: On a point of order, Mr. Howe I think—

Mr. HOWE (*Wellington-Huron*): So in order to reach a competent decision in the committee on this we should have some outside assistance. It has been suggested to me we ask in this committee that we do get competent accounting assistance so that we can decide what impact this bill is going to have on the economy of Canada. The Freight Rate Reduction Act of 1959 brought in subsidies to overcome the 17 per cent freight rate increase. Now is the impact going to be that this 17 per cent is going to go back on or 20 per cent? We want to know. We cannot make up our minds without assistance.

The CHAIRMAN: I think the best thing to do with this thing because it came up just on the Friday, is that the Steering Committee will discuss it and we will hold a Steering Committee meeting this afternoon before our afternoon meeting. I will call the Steering Committee just before 3.30.

Gentlemen, the clerk has distributed copies of the C.N.R. brief and also for your convenience a summary of the brief.

I also wish to bring to your attention—it might save the time of the committee—that, as the committee knows, on July 5th the C.N.R. did make a presentation dealing with passenger services, and the C.N.R. has requested, rather than going through the complete brief again, that the Minutes of Proceedings and Evidence of July 5th concerning passenger services and the brief submitted by the C.N.R., the substance of issue 22, be incorporated in the

Minutes of Proceedings and Evidence on this particular bill, Bill C-231. If that meets with your approval I would like to have a motion to that effect.

Moved by Mr. Fawcett, seconded by Mr. Rock.

Motion agreed to.

I would now call upon Mr. Gordon who will make a few brief opening remarks about procedure and other matters, and then we will proceed into the questioning of the brief.

Mr. DONALD GORDON (*Chairman and President, CNR*): Perhaps, Mr. Chairman and members of the Committee, I could outline how we intend to proceed with our presentation, to see if that meets with the approval of the Committee. We have, as you know, filed with the Committee a detailed submission which deals with specific aspects of Bill No. C-231 and makes different recommendations and suggestions. It is not my intention, you will be glad to know, I am sure, to read this detailed brief. We have as well, however, for the assistance of the Committee made available a summary of our suggested amendments.

In my opening remarks, which will be brief, I would deal with the national transportation policy, together with some observations on the regulatory control structure and also the need, as I see it, for a government program of transportation research.

Following that, Mr. MacMillan will make a short statement dealing with other parts of the bill, which affect passenger service, branch lines, the movement of grain, competitive rate freedom, commodity pipelines, extra-provincial motor vehicle transport and a general view on the adjustments which Canadian National is making to meet the new competitive environment.

We would then direct your attention to Chapter 3 of our filed brief which deals with the costing of railway operations. You will note that at page 14 it was our intention to give a short slide presentation on how costing is carried out in practice. This presentation will be given by Dr. R. A. Bandeen, Director of Corporate Planning.

Mr. Chairman, if that outline and method of procedure are satisfactory, I will proceed, if everyone is agreeable?

Mr. HORNER (*Acadia*): I think, perhaps, Mr. Chairman, for the record, I should ask Mr. Gordon whether or not this brief is his own, or whether or not the Minister of Transport has in any way tampered with—

Some hon. MEMBERS: Order, order.

The CHAIRMAN: I think that question is out of order, Mr. Horner.

Mr. HORNER (*Acadia*): I think we in the Committee should know whether this is a C.N.R. statement or the Minister of Transport's statement. You can rap your hammer all you like I want an answer.

The CHAIRMAN: Well, I am ruling that Mr. Gordon or anyone else does not have to answer your question, Mr. Horner.

Mr. HORNER (*Acadia*): In other words, you are leaving the Committee completely in the dark.

The CHAIRMAN: I resent such a remark, Mr. Horner.

Mr. HORNER (*Acadia*): Then let Mr. Gordon answer the question.

The CHAIRMAN: I think your question is completely out of order. The submission is here and the Canadian—

Mr. HORNER (*Acadia*): Whose submission is it? I think the Committee should know.

The CHAIRMAN: Read the first—

Mr. HORNER (*Acadia*): I think the Committee should know.

The CHAIRMAN: Mr. Horner, if you will read the first page of your brief you will see who—

Mr. HORNER (*Acadia*): I want to know who wrote it.

The CHAIRMAN: We can hear you, you do not have to shout?

Mr. HORNER (*Acadia*): I can hear the rap of the hammer, too.

The CHAIRMAN: Well, you speak of—

Mr. HORNER (*Acadia*): I want an answer. I want an answer. I say: Whose brief is it? Surely there is a simple answer.

The CHAIRMAN: Mr. Horner, pay attention to the Chair.

Mr. HORNER (*Acadia*): I hear the rap.

The CHAIRMAN: All right then, just pay attention to it. Mr. Pickersgill will answer.

Hon. J. W. PICKERSGILL (*Minister of Transport*): I do not know whether I have any right to speak since I am only a member of parliament like Mr. Horner, but if Mr. Horner has any charges to make I will be glad to answer. He knows the rules of parliament just as well as I do. He has made an insinuation, without apparently even the faintest shred of evidence, that the Canadian National may in some way be acting as my agent. If he wants to make a charge of that sort I will be glad to reply to it in the proper way. But if he is just going to adopt this smearing policy I take the gravest kind of exception—

Mr. HORNER (*Acadia*): Mr. Chairman, on a point of order, I in no way tried to smear, or insinuate anything. I have no doubt in my mind, having had Mr. Gordon appear before the committee in the past, about who wrote the brief; but I thought the Committee should know whether or not this brief is subject to the perusal of the department, or whether or not it is solely the C.N.R.'s beliefs. I thought it would be nice to have that on the record so that the Committee could take it as the CNR's brief and only the CNR's brief.

The CHAIRMAN: I think anyone would know—

Mr. HORNER (*Acadia*): I think a simple answer from Mr. Gordon would have done, but if the Minister is so thin-skinned that he is worried, well, let him remain worried.

The CHAIRMAN: The answer is that I am ruling that we proceed with the brief submitted by Mr. Gordon.

Since the brief is not being read, as it has been the practice of this Committee to have the briefs presented beforehand, I would ask for a motion

that the brief be printed as an appendix to our Minutes of Proceedings and Evidence today.

Moved by Mr. Byrne, seconded by Mr. McWilliam.

Motion agreed to.

The CHAIRMAN: You may proceed, Mr. Gordon.

Mr. GORDON: Mr. Chairman, I regard Bill No. C-231 as a very significant piece of legislation and one that is most important to Canada and its national development; important to shippers, consumers, and as well, to the health of the transportation business. The bill is significant because it enunciates in clear terms a declared national transportation policy. This fact is something in itself because when you look back over the nation's history and the history of the railway industry you will find that there have been no less than 32 Royal Commissions which have dealt with railway affairs. Each one concerned a specific situation and produced a specific recommendation, or an ad hoc solution, intended to solve immediate problems affecting particular parts of the country or particular sections of the transportation industry at a particular time.

The MacPherson Royal Commission on Transportation was more comprehensive in that it looked at the broad problem. As the Commission has stated—and I am quoting—

We wished, in other words, to look for long term solutions rather than for palliatives which would simply gloss over the problem on a short term basis.

The commission took the view that transportation is closely bound to the national interest and there is a critical need for increasing study and better understanding of all aspects of transportation and clear and consistent national policies in respect of it. Bill No. C-231, in section 1, sets forth principles and objectives of a national transportation policy. As we have stated in our brief, Canadian National fully supports the proposed objectives and principles, and we are willing to co-operate in any manner or means with the recognized authorities in the proper implementation of that national transportation policy. We go on to point out, however, that there are certain provisions of the bill which, in our opinion, depart in some respects from the statement of policy. But, in any event, we have made some suggestions and recommended amendments in this regard.

The important thing, in my opinion, is that the new program and the national transportation policy be given the test of time and experience. For those who will object to certain features of it—and the railways will be among them—there are proper safeguards contained in the proposed legislation, which provide for a re-examination of the rate structure, and other reviews, in five years time. In addition, of course, the new Transport Commission has, in my opinion, wide discretionary powers, and will be in a position to make recommendations from time to time to the Minister.

A proper foundation for an orderly national development is an efficient transportation system. The MacPherson Commission aptly and rightly observed in its introductory section in Volume 1:

History records how the Canadian railways provided the means of meeting not only the demands of a developing economy but, also, the goals of national policy directed towards the establishment of national

unity. And today the railways continue to play a vital part in the maintenance and growth of the nation.

In my opinion, and I have been saying this for many years, the railways have been operating under too much regulation, too much unnecessary control, too long. This factor retards the industry which in turn retards industrial development. The railway industry has been operating under a system of ad hoc subsidies which shroud the real problem and make its solution more elusive. Here again, after examining all the facts, the MacPherson Commission clearly indicated that those subsidies were payments to the people, to the manufacturers and to the consumers. They were not, and are not payments to the railways in the hand-out, something-for-nothing category. The railway industry can consider itself fortunate indeed that these payments—which are really indemnity payments—meet the actual cost of the service performed. In this respect we are basically in accord with the fact that the report recommends “that transportation which is designed to aid, on national policy grounds, particular shippers and particular regions, should be recognized for what it is, and not be disguised as a subsidy to the transportation industry.”

The declared national transportation policy in the bill, if implemented in its letter and spirit would eliminate the anomalies and inconsistencies which have resulted from the exigencies of the past. The new policy will go far, in my opinion, to encourage the development of a truly national transportation system within which the railway train, the airplane, the truck, the bus, the waterways, the pipelines or any other mode that may be developed, will function in a well balanced fashion, each striving to supply that portion of the total transportation demand which it can supply most efficiently. Such policies would be in line with world trends in transportation. Almost everywhere in the world, social need and economic and political common sense are leading towards the development of balanced, national, and even international, transportation systems.

This trend is being encouraged and directed by high level transportation policies in many nations; and I think it is important to stress that such policies invariably seek to maintain a strong element of competition between the various modes of transportation. This element of competition is being particularly stressed in Europe among the nations making up the European Economic Community. The trend there is to try to put all carriers on a relatively comparable basis in regard to direct and indirect support from public funds and in regard to fare and rate regulations and similar matters. The belief of the Common Market transportation experts is that this kind of competition serves not only to keep the cost of transportation down but makes detailed government regulation unnecessary.

A very good summary of this point of view has been set forth by an official of the Norwegian Ministry of Transport. Norway, of course, is not a member of the European Economic Community but I think the Norwegian statement is interesting because it illustrates the prevailing nature of the trend I have been talking about—the trend toward greater freedom for transportation even in countries which have had long experience with state ownership of major modes of transportation and with strict control over the transport system as a whole. The Norwegian transportation expert was referring to the report of a special

government commission which has examined the transportation system of that country, and he summed up the basic thinking of the commission in these words:

The community is interested in the total cost of transportation being as low as possible... To achieve this one must get the best possible competitive equality between the various means of transport. This could be done through a comprehensive detailed regulation of both private transport and public transport. This alternative would demand a big expansion of the national administration and an extensive control apparatus. As experience has shown that the result of such detailed regulation is more than doubtful, the commission has aimed at a system which will, as far as possible, be self-regulating.

There are, of course, many important differences between the transportation system in Europe and that of North America, and naturally, we must deal with our problems within the framework of the political, economic and technological conditions which prevail in this part of the world. Nevertheless, the trend towards balanced, competitive systems can be discerned in North America also, and this is quite consistent with the system of free enterprise and individual initiative which we value and which we wish to maintain.

For instance, the late President Kennedy, in his historic transportation message to Congress in 1962, spelled out a national transportation policy which has been warmly endorsed throughout the nation. He said the basic objective of the nation's transportation industry should be to provide the fast, safe and economic services needed in a growing and changing economy. He added that the role of public policy should be:

... to provide a consistent and comprehensive framework of equal competitive opportunity that will achieve the objective at the lowest economic and social cost to the nation.

The President's statement further said:

Pressing problems are burdening our national transportation system, jeopardizing the progress and security on which we depend. A chaotic patchwork of inconsistent and often obsolete legislation and regulation has evolved from a history of specific actions addressed to specific problems of specific industries at specific times. This patchwork does not fully reflect either the dramatic changes in technology of the past half century, or the parallel changes in the structure of competition.

The regulatory bodies are required to make thousands of detailed decisions based on out-of-date standards. The management of the various modes of transportation is subject to excessive, cumbersome and time-consuming regulatory supervision that shackles and distorts managerial efficiency. Some parts of the transportation industry are restrained unnecessarily, others are promoted and taxed unevenly and inconsistently.

It seems to me, Mr. Chairman, that that states the problem well and has equal application to the situation in Canada. However, I am confident that in Canada we are now endeavouring to proceed in an orderly manner with the development of an efficient transportation system.

I indicated at the outset that I would also like to say a few words on the need for research. Reference to this subject is made in our filed brief which is before you. The point I wish to make is that I see an urgent need for an independent, university-based transportation research centre or institute which would provide, on a consistent basis, the body of up-to-date information and analysis that is necessary to underlie decision making and develop national transportation policies appropriate to the times in which we live.

Financial support should come from the government and the transportation industry at large. The centre would have to be independent of both and completely objective in its approach to any task or project. Research would be directed primarily towards the solution of broad and long-range problems. Disciplines such as economics, law, political science, geography, sociology and business administration and all branches of engineering have important contributions to make to transportation research.

In saying all this, I would not want to leave the impression that Canadian National is entirely lacking in any research now. We do have an efficient research and development department which has made, and is making, significant contributions to transportation technology. Other companies have also engaged in this field, but there is a further need, and we are watching with a great deal of interest, for example, the United States Federal Government-sponsored ground transportation research and development program. It is this sort of program which I think would be of great benefit to Canada. We must, however, tailor such a program to our own needs which would include recognition of the social, political and regional impact of scientific and technical developments.

As you know, I am nearing the end of my tenure of office, or stewardship, of the Canadian National, so, therefore, when I speak in support of the principles and objectives of this proposed legislation, I do so with no other motivation than the firm conviction that those principles are for the general national good. I sincerely believe and earnestly hope that this legislation will, in time, straighten out what has been a chaotic condition in the railway industry, brought about by decades of ad hoc solutions. Over the years, this situation has obscured the realities or unrealities of labour negotiations, left no clear line of demarcation of the ability or inability to deal with a particular labour situation. This comment applies not only to the Canadian National, but to the whole industry.

With respect to Canadian National I have no hesitation in saying—and, in fact, I am proud to say—that this is a great national enterprise. With the enactment of this legislation and implementation, in due course, of recommendations I have made to government respecting a revision of the capital structure of Canadian National, the accomplishments and the viability of this great business organization will properly emerge. I am convinced of the wisdom of the concept that Canadian National be operated as a commercial undertaking. I have stated on a number of occasions, but I feel I cannot repeat too often, my belief that Canadian National serves the country best when it is able to act as an independent, competitive business enterprise facing basically the same problems, challenges and opportunities as any other major business enterprise, meeting these challenges by modern business methods and judged by our ability to manage efficiently the assets entrusted to us by the people of Canada.

That, Mr. Chairman, is the statement I wished to make.

As I mentioned, I think it would be useful now if Mr. MacMillan were to make some remarks on the particular points he would like to cover.

The CHAIRMAN: Thank you, Mr. Gordon. Mr. MacMillan?

Mr. N. J. MACMILLAN (*Executive Vice-President, CNR*): Mr. Chairman and members of the committee, may I reiterate what Mr. Gordon has said in expressing how delighted we are to have this opportunity to discuss with you how Canadian National will adjust and shape its future in line with the proposals contained in Bill C-231.

The most positive benefits, of course, which flow from the proposed legislation will be freedom of the railways to compete. I will touch on that subject, and as well, outline briefly the company's course of action in major problem areas.

With regard to passenger services, you will recall that when we were here in July we submitted a brief and a detailed presentation on our passenger policy. Without going over the ground again, suffice it to say that Canadian National intends in this field to compete vigorously with all the marketing tools at its disposal. New equipment will be introduced, new services offered. The keystone of our passenger policy, perhaps, was summed up in one sentence in the brief submitted at that time. "The company's objective is the elimination of the rail passenger deficit, not the elimination of rail passenger business."

Our object is at least to break even on the passenger business in the early 1970s.

Bill C-231 provides three major changes which will help accomplish these objectives in the passenger field: (i) freedom to set passenger rates in competitive areas; (ii) payment of loss for services which must be retained for national policy reasons, although uneconomic; (iii) new criteria for abandoning uneconomic services which should allow for a more rational overall passenger system.

All three provisions are required in the implementation of our passenger policy.

As well, I feel that rate freedom should be extended to commuter rates or, failing that, any losses incurred in commuter service should be met by the government. Similarly, the total loss—not just 80 per cent only—should be paid to the railways on uneconomic services which they are required to maintain in the national interest.

I feel then, that in this particular respect, Bill C-231, modified as suggested, will enable the company to control and, indeed, surmount passenger losses.

With regard to branch lines, Canadian National considers it most desirable and appropriate to have available the procedure which will allow for a sensible disposal of unnecessary branch lines.

The statement issued by the Department of Transport on September 12th dealt in detail with the prairie rail network and those lines which the railway would not be permitted to abandon and which would be protected until 1975. The procedure outlined will, however, allow the railways to apply for abandonment on the most obvious uneconomic lines in western Canada, which are not included in the network, and Canadian National will proceed before the Board of Transport Commissioners on these lines as soon as possible. We have written

to the Board of Transport Commissioners a letter which constitutes a notice of withdrawal of all Canadian National prairie lines abandonment applications presently filed with the Board which form part of the prairie rail network and cannot be proceeded with before 1975; and this withdrawal to take effect when Bill C-231 is passed by Parliament. We informed the Board, as well, that we were updating and revising information for those lines which are permitted to be proceeded with in accordance with Section 168 of the Railway Act.

Another important feature of Bill C-231 is that it will allow Canadian National to work with the new Commission and other interested parties over a period of years with the objective of eliminating wasteful duplication of lines.

Other points respecting branch lines are dealt with in detail in our filed brief. However, before I leave the subject of branch lines, while most of my remarks have dealt with abandonment, I wish to state categorically that Canadian National is vitally interested in building new lines where traffic and other developments warrant. As a matter of interest, since 1945 we have built some twenty-three hundred and seventy-five miles of new railway to serve industry and important resources developments in all parts of Canada. In this particular connection, the company welcomes also the provision in the Bill which allows it to construct new lines up to twenty miles in length without legislative approval. This will enable us to move more quickly in line with the needs of producers to develop further our national resources.

On the question of the movement of grain, we are disappointed that the Bill does not contain any provision for an immediate solution for the Crowsnest grain matter. However, we are encouraged to know that there will be within three years a thorough study of the movement of grain in Western Canada. It is to be hoped that the study will go beyond simply a study of cost and will be an overall review of the movement of grain from the farms to the export positions. The problems attendant on the movement of grain for export have become more acute in the last two years due to the increase in the volume to be moved. This situation accompanied a substantial increase in the volume of general traffic. It should be remembered that the problem is not one related solely to the ability of the railways, but embraces, as well, country and terminal elevators, their location, grain handling facilities at the export terminal to permit rapid unloading, programming of shipments by type and grade of grain to ensure that export terminals have on hand, or are receiving, the grain cargo required to meet vessel outloading requirements.

I fully recognize that it is vital to Canada to move grain in the most economic fashion and at the lowest cost to the economy. Canadian National is prepared to assist in reviews, surveys or studies which will help coordinate the development of a rationalized system to provide the most economic and efficient transportation of grain. Such a programme should include, among other things: (a) the development of a rationalized network of large capacity country terminal elevators located on main, secondary and heavy feeder lines, spaced at the optimum distance apart justifiable by elevator capacity, probably forty to fifty miles. (b) Elimination of uneconomic thin traffic branch lines, and (c) improvement to grain handling facilities at the export terminals to permit the rapid unloading of both box and high capacity covered copper cars.

happy

I have every confidence that if such a broad study is undertaken, then this will be of immense benefit to all concerned, from the original producer to the ultimate customer.

Bill C-231 confers upon the railway a substantial measure of competitive rate freedom. What competitive rate freedom means to us is the ability of the railways to compete on a fair basis for the transport of goods in Canada. We ask for nothing more and expect nothing more. The company for its part will use the freedom judiciously in an endeavour to give to the country the lowest cost and the most economic transportation possible.

Now, rate freedom does not necessarily mean rate increases. Indeed, many competitive conditions require and will require rate-reduction. A competitive rate freedom environment will require the company to know and understand its market, to know and understand its competitors and to blend this knowledge and understanding into rates and services which will produce the most economic transportation, considering all cost including investment.

Canadian National is very interested in the provisions of the Bill dealing with competitive modes of transportation. The provisions of Bill C-231 dealing with the construction and regulation of commodity pipelines are considered appropriate. There is a very definite role in the future for the pipelining of commodities. Canadian National is studying these requirements for solids pipelines to ascertain how best they can be interwoven with its existing facilities.

In many cases commodity pipelines might supplement rail movements to the benefit of the shipper. In other cases, the railway's right-of-way might provide a valuable asset in any pipeline project.

The advent of solids pipelines as a new mode of transportation has occupied our attention and we are keeping abreast of technical developments and have undertaken research as is required.

What solid pipelines will mean to Canadian National remains to be seen as the technology develops and the capabilities of such pipelines become better known.

With respect to the possibility of future regulations of extra-provincial trucking, Canadian National considers this appropriate as only when all modes of transport truly bear their own cost, have the same degree of regulation along with the same freedom to compete, will the most economic system of transport be produced.

During the course of your proceedings, you will hear many times references to the importance of the railways to the economy of Canada. There is no denying that fact, and the help and progress of the railway industry is an essential ingredient of our development. May I say that I look forward with renewed hope to a bright future for the railways in Canada. Their role in Canada's development will be that much more effective if they are permitted, and able, to adjust their role in a changing economy. Implicit in this is freedom to reduce their plant, increase their plant, or modify the plant, as the case may be.

With this sort of freedom, coupled with competitive rate-making, Canadian National has a bright future both as an important factor in the transportation of goods and people and also as a profitable national enterprise.

● (10.30 a.m.)

Now, Mr. Chairman, with your permission, Dr. Bandeen will proceed with our presentation on railway accounting.

Mr. HOWE (*Wellington-Huron*): Mr. Chairman, I just have one question here. Will we have to wait until the minutes of these meetings are available to examine these statements that have been given to us? These are very comprehensive statements that have been given by the chairman and the incoming chairman of the CNR, and we are going to have another one from somebody else. It is impossible, with all this verbiage, to make a detailed examination of these statements.

The CHAIRMAN: We have a brief.

Mr. HOWE (*Wellington-Huron*): Yes; but they are not followed word for word by the chairman and the vice-chairman.

The CHAIRMAN: I was told by Mr. Vaughan that we could have copies of the statements made available probably by this afternoon; and the clerk tells me that he can photostat them and have them available for you by this afternoon's meeting.

An hon. MEMBER: The prepared statement?

The CHAIRMAN: Yes, the whole statement.

Mr. RALPH VAUGHAN (*Vice-President and Secretary, CNR*): We did not intend to pass them out but if the Committee would like to have that done we will.

The CHAIRMAN: Well, Mr. Howe, the statements are pretty well all in the brief as they are, but I agree with you. They will be available to you this afternoon. The clerk will see that copies are made.

Mr. GORDON: I would just like to add this word, Mr. Howe: The presentation which Dr. Bandeen is now going to make to you is an endeavour to take us through the exercise of how a freight rate becomes established and what are the component parts that go into it.

I would be the first to admit that these things are very difficult to grasp, and no member of the Committee can expect that in a matter of a half an hour or an hour's presentation he is going to become expert on the accounting or the analysis of cost, or anything of that sort. We are not here to try to make you experts; we cannot do it. But I do hope that when Dr. Bandeen is through you will have a much more comprehensive undertaking of the kind of questions to which you really want to get the answers.

Dr. Bandeen will be here and will be happy to deal with any detailed question at all. I would only suggest again that in the presentation you can get very much off the track if it is interrupted. You have to get it as a whole. I am saying this to be helpful. Dr. Bandeen will take you through a series of examples and charts and so forth, and as a result I think you will get a much better understanding, and then you can decide what kind of help you need.

Mr. HOWE (*Wellington-Huron*): Mr. Chairman, that very statement which Mr. Godon has given pinpoints the importance of some outside, independent—

The CHAIRMAN: We are inclined to accept that, as I stated to you, Mr. Howe.

Thank you, Mr. Gordon. Dr. Bandeen.

Dr. R. A. BANDEEN (*Director of Corporate Planning, Canadian National Railways*): I propose to present to you a short outline of railway costing. While my presentation will deal exclusively with Canadian National data, the principles apply to railway costing generally, and, in particular, the Canadian Pacific Railway uses the same method; and, indeed, this is a joint presentation of the two railways.

The CHAIRMAN: Excuse me, Dr. Bandeen. Will those of you who are interested in viewing the screening of the chart today please move now so that we do not disrupt the presentation?

Now, Dr. Bandeen, we shall proceed.

Mr. BANDEEN: The Canadian Pacific Railway uses the same method and indeed this is a joint presentation of the two railways. The Canadian Pacific participated in the preparation of this submission.

Railway costing is a closed subject to most people, and so is the broader field of transportation costing in general; but cost estimation must be a vital part of the operations of modern transportation agencies if they are to perform with efficiency and remain responsive to the demands of the economy.

This presentation is designed to simply open the book entitled "Railway Costing" and take a quick look at the chapter headings. In the few minutes available you certainly will not become costing specialists nor cost analysts but you may gain a certain awareness of the guiding principles and practices of this specialized field of endeavour.

In many ways, cost estimating for rail transportation is not so different from cost estimating in many other industries.

I am sure many of you have had some experience with cost estimating in the construction industry, when an estimate is required for the cost of construction of a building, say, a small warehouse. A team of architects, engineers and others develops the total estimated expense, using standard, well-known techniques and formulae. The total cost is arrived at by separately estimating the costs of the three major components, material, labour and equipment:

COST OF WAREHOUSE CONSTRUCTION

Components	Units	Cost per Unit	Total
Materials.....	—	—	\$ 19,840
Labour.....	—	—	6,900
Equipment.....	—	—	360
Total Cost.....	—	—	27,100

The first of these three categories, materials, includes the concrete, steel, lumber, doors, et cetera, which are required to complete the building.

COST OF WAREHOUSE CONSTRUCTION

Components	Units	Cost per Unit	Total
		\$	\$
Materials			
Concrete.....	600 cu. yd.	15/cu. yd.	9,000
Reinforcing Steel.....	15,000 lb.	0.18/lb.	2,700
Lumber.....	22,000 bd. ft.	80/1000 bd. ft.	1,760
Shingles.....	22,000	20/1000	440
Roofing Paper.....	21,000 sq. ft.	4/100 sq. ft.	840
Steel trusses.....	22,000 lbs.	0.15 /lb.	3,300
Concrete Blocks.....	5,000	0.21 each	1,050
Large Doors.....	2	300 each	600
Small Doors.....	2	30 each	60
Drain Pipe.....	600 lineal feet	0.15 /ft.	90
Total Material Cost.....			19,840

Here is the full bill of materials with the quantities of each listed in the second column. The next column shows the cost per unit for each of the components. These figures are usually the prices quoted by suppliers or subcontractors. At the right is the result of multiplying these figures to produce total cost for each component.

A similar procedure is followed to estimate the cost of labour required at the building site to turn the bill of materials into a finished structure.

COST OF WAREHOUSE CONSTRUCTION

Components	Units	Cost per Unit	Total
		\$	\$
Materials.....			19,840
Labour			
Masons.....	500 man hours	4.00/hour	2,000
Carpenters.....	300 man hours	3.00/hour	900
Welders.....	300 man hours	5.00/hour	1,500
General Labour.....	1,000 man hours	2.50/hour	2,500
			6,900
Equipment			
Truck Crane.....	30 hours	12.00/hour	360
Total Cost.....			27,100

The various skills are listed and the number of man hours that the job requires are estimated. The cost estimate is the result of multiplying estimated man hours by the known labour rate per hour.

Equipment, in the form of a truck-mounted crane, was required for this job so the cost involved is included in the estimate. If the estimate is being prepared as the basis for a bid, the contractor must decide how much allowance for contribution to overhead and profit he can include and still obtain the contract.

The procedure is similar for estimating the cost of a rail transportation move between any two points. The components are listed, the number of units of each component is estimated, these are multiplied by the unit costs in each case and the result is summed to produce the cost estimate. The total is then sent to the marketing department to decide what the charge to the customer should be.

The difference from warehouse construction estimating comes under two headings: First, the components are called by names which are peculiar to the transportation industry, and there is no set of standard and well-known engineering formulae for estimating the quantity of each of these components.

Cost of Transportation

Components

Car Miles
Train Miles
Diesel Unit Miles
Gross Ton Miles
Yard Switching
Diesel Unit Dispatching
Fuel
Car Days
Car Loads
Net Ton Miles
Tons Originated
Crew Wages

The components as listed on the slide are car miles, which I think is self-explanatory; it is the movement of a car one mile. A train mile is the movement of a train a distance of one mile. A diesel unit mile, of course, is the movement, again, of a diesel unit for a distance of one mile. Gross ton miles are the number of tons—this is the tare weight and the contents—that are hauled behind the locomotive and moved one mile on road freight, or passenger, as the case may be.

Yard switching is the switching service performed by yard locomotives in yards where regular service is maintained.

Diesel unit despatch is the process whereby one diesel unit is readied, fueled, supplied with sand, etc., and moved to a point where it can then be available for road or yard service.

Fuel: Engineering studies have disclosed that the fuel consumption varies with the resistance due to mechanical and frictional efforts and various other technical matters; and it has become possible to calculate the fuel consumption fairly accurately by engineering formulae.

Car days are the 24 hours of the time of one freight car on line in the use of the movement.

Carload is, for statistical purposes, a shipment of one car of total weight not less than 10,000 pounds from one shipper to the receiver.

Net ton miles: The number of tons of car content moved one mile in road service; and "tons originated" is the number of tons of freight car content originated from any given point.

● (10.40 a.m.)

Crew wages are the wages paid to employees—for example, engineers, conductors, brakemen—directly concerned with the operation of freight trains between selected terminals.

The railway cost estimator must, therefore, since there is no outside method of determining how much of any one of these units should be used with the exception of fuel, turn to people with railway operating background and experience to produce the estimates of the quantity of each required. These producers of railway transportation have the accumulated knowledge about their particular product necessary to derive the figures.

The second major difference in railway estimating is that the components of transportation move are not purchased from an outside supplier; they are, indeed, manufactured by the railway itself. Therefore, the railway itself must develop the unit cost of each component. This process is called cost research. These unit costs are really estimates derived from experience of the additional expense of each individual unit required. The methods for obtaining them vary and some of them are quite simple.

COST OF TRANSPORTATION

Components	Units	Cost per Unit	Total
		\$	\$
Car Miles.....	61,200	0.024	1,464
Train Miles.....	664	0.291	193
Diesel Unit Miles.....	2,008	0.501	1,005
Gross Ton Miles.....	2,479	0.355	880
Yard Switching.....	3,720	0.568	2,112
Diesel Unit Dispatching.....	4	14.131	55
Fuel.....	1,200	0.128	153
Car Days.....	1,260	1.257	1,583
Car Loads.....	100	9.923	992
Net Ton Miles.....	1,133	0.290	328
Tons Originated.....	2,500	0.126	314
Crew Wages.....	6 train crews	143.75	842
Total Cost.....			9,921

On this chart the unit costs are shown in the second column of figures, and I would like just to explain, for a moment, what is contained in a unit cost of car mile, train mile and the various other measures. Now, in a car mile you have the repairs to the car—the running repairs; you have the fuel required to move the car; you have the lubrication inspection. These are the major components that are in the .024 cents per car mile.

Now, in train mile you get train supplies, superintendents, train controls, caboose repairs and the interest and depreciation on the investment in the caboose; fuel required to move the caboose; and the maintenance of the caboose.

These are unit miles. Again, you get the repairs to the diesel units, the interest and depreciation on the capital that is tied up in the diesel units, and you get the fuel that is required to move the locomotive.

Gross ton miles: The unit cost associated here is mainly the wear and tear and the maintenance on the structures, the road property of the company; and it is mainly the maintenance of way and structure, with some interest and depreciation on a certain small portion of the way and structure.

In yard switching you have the wages of the yard trainmen, enginemen, yardmaster and their clerks; the maintenance of yard tracks and their structures; the interest and depreciation on the facilities and the equipment used in the yard.

The unit cost for diesel unit dispatch is made up of road locomotive supplies and enginehouse expenses, generally described as the cost of servicing a locomotive prior to dispatching a train.

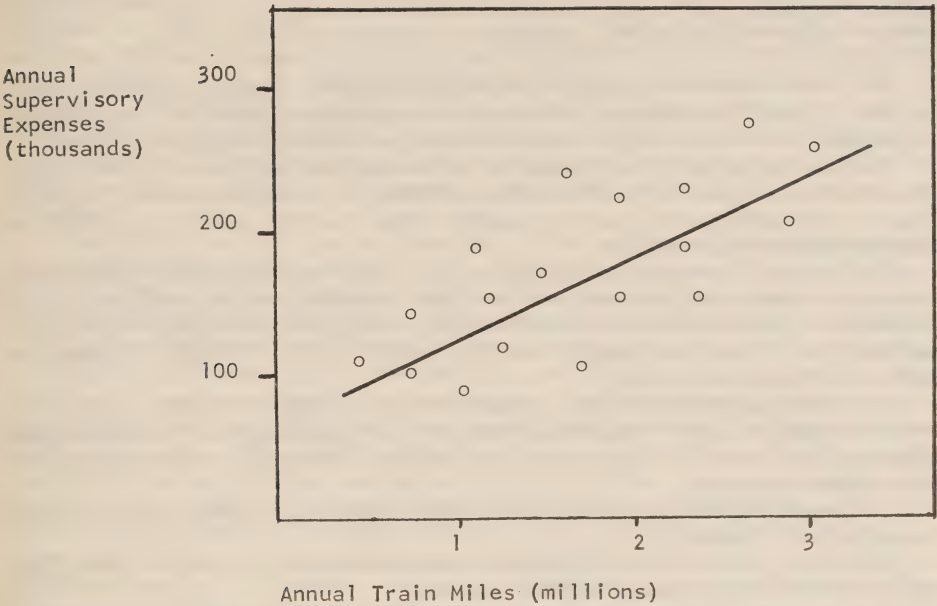
With regard to fuel, there is the direct fuel consumption cost as calculated by the formulae. We have a car day unit cost for each class of system-owned equipment. This cost includes interest and depreciation on the investment in the equipment, as well as the cost of back shop repairs. When foreign rail equipment is used our costs are based on the standard per diem charge excepting only when special equipment is leased, in which circumstances particular costs are developed.

Carload costs are primarily station employees and their expenses and other related accounting expenditures.

Net ton mile unit costs are directly related operating and administrative costs of the freight sales organization; and the "tons originated" is used to allow for the probable cost of freight claims—payments to railway customers for loss or damage during the movement. The crew's wages are the actual wages paid for each train run, including allowance to cover unproductive time such as vacation and so on.

It does not, for example, take much research to find out what the engine crew wages are per train mile. However, about one-third of our total expenses, where the connection is not so easily seen, are obtained by historical record and analysis rather than by analyzing them specifically. This type of analysis relates historical changes or differences in volume to historical changes or differences in cost and is called regression analysis. The small circles represent the experience over a period of years in each of several railway areas. Each circle represents the amount of money spent on supervisory expenses annually, and the related annual train miles.

Regression Analysis



As you will note, on the left-hand side of the chart are listed the annual supervisory expenses for a railway area; across the bottom are the train miles which that area produces; and the chart represents for each of the areas, how much supervisory cost they had and the number of train miles. When plotted as shown they indicate a general trend of increasing expenses for increasing volume of traffic. The regression technique is merely a method for expressing this relationship in arithmetical terms. It allows us to compute a line of best fit that best expresses this relationship and for this example it is represented by the line shown on the chart. In other words the regression technique tells us not only that supervisory expense does increase when traffic volume increases—which we already knew—but it tells us how much it increases, on the average, for each unit increase in volume. All this is based on actual experience.

Now, I think, if this line which represents the relationship between train miles and supervisory expenses had been taken back so that it crossed the line of annual supervisory expenses you would have seen that in each area there was approximately \$75,000 of expense which was not related to the increase in train miles. It is an expense which is there because we are operating in the area and it does not vary with the volume of traffic handled. What we are attempting to do with regression analysis is to show how the expenses above this base of \$75,000 vary with the volume of traffic. What we are trying to establish here is a unit cost which we can relate to train miles.

COST OF TRANSPORTATION

Total cost for 100 carloads —664 miles.....	\$9,921.00
Cost per Carload.....	\$99.21
Cost per hundredweight of contents.....	\$0.196

This combination of estimates of components and their unit cost provides us with the total variable cost for a given transportation move. This is generally expressed in terms of cost per carload, or cost per hundredweights of content.

Shown on this chart is a move of a hundred carload train for 664 miles, representing a total cost to the railway of \$9,921, or a cost per carload of \$99.21 because fortunately we had a hundred cars on the train at a cost per hundredweight of .196 dollars.

To further illustrate the significance of these cost estimating procedures, they have been used to estimate the total variable cost of carload freight expenses in 1965 for the Canadian National. These are estimated to be \$393.6 million. This is the total cost of moving freight on the Canadian National in 1965—the total variable cost.

Similarly, passenger variable expenses were estimated for 1965, as you will recollect from our previous presentation to this committee. The total passenger expenses for the year 1965 come to \$110.6 million. That is our total variable cost of passenger business.

Express freight expenses also have been estimated for 1965 and they come out to be \$110.5 million.

Expenses incurred in providing telecommunication services have been estimated for 1965 to amount to \$42.3 million.

In any year a certain amount of expense is incurred which does not vary with changes in traffic volume, nor is it related to any one of the services. In 1965 expenses of this type were estimated to be \$294.5 million.

The unrelated to specific service expense includes mainly maintenance of way and structure expenditures such as for snow removal, ditching, weed control, ballasting and so on, which are not related to any specific movement. It also includes a good portion of the supervisory expenses of roadway and equipment maintenance, as well as transportation, as was shown on the previous regression chart.

In addition to these items, a certain amount of station expense, dispatching expense, enginehouse expense, sales and headquarters expense and depreciation and interest charged on fixed plant are unrelated to specific service or to volume changes.

1965 EXPENSES
(millions)

		% of total
	\$	
Carload Freight.....	394	41.4
Passenger.....	111	11.6
Express Freight.....	110	11.6
Telecommunications.....	42	4.5
Unrelated to Specific Services.....	295	30.9
Total.....	952	100.0

● (10.50 a.m.)

In summary, the total of \$952 million which is shown at the bottom of the first column, and which is the total expenditure of the Canadian National Railway in 1965, can be separated as shown. The carloads freight variable expense of three hundred and ninety-four million represents only 41.4% of the total; and the expenses which are unrelated to specific services, which total two hundred and ninety-five million dollars, make up some 30.9% of the total. If you wish, the variable portion of the expense of the Canadian National was approximately 70 per cent, and those which were nonvariable, or fixed, and which we call unrelated specific services, amounted to 30.9 per cent or roughly a 70-30 split.

Naturally, the total carload freight expense of three hundred and ninety-four million dollars is the sum of expenses of moving thousands upon thousands of individual carloads between hundreds upon hundreds of individual points.

The process of arriving at the cost of these individual carload movements is not an uncomplicated one, but it is relatively simple in concept. To understand this process, it is important to realize that some of the various important factors involved are under the control of the shipper. The first of these comes under the heading of 'car type'. Costs will vary according to the car type, since different car types require different investment and can handle different payloads. The cost of moving a given tonnage varies with the number of cars required to move it, that is, with the tons moved per car, or the net weight. Different car types have different amounts of dead weight (or tare weight, as we call it) to be transported. Since they are designed to handle different commodities, they have different backhaul or empty-return characteristics. If you think of it for a minute, a car designed for a specific move has to return empty and consequently you get a return haul that is one hundred per cent empty. Something that is a general purpose car, such as a box car, often will get a load, or a partial load, in each direction.

Costs also vary, of course, according to the distance of haul and according to the amount of terminal switching or terminal handling that is required at each end and in the middle of the trip.

Finally, costs vary according to the kind of service required by the customer. For customers requiring an average type of service, the railway may wait until its trains are filled out with tonnage right up to the capacity of the diesel units assigned; but many customers require rapid and frequent service, which means that the railway must operate its trains when the cars are available to move, and not necessarily when enough cars are collected to make up a long train.

I would like to illustrate to you the effect on costs of changes in these four main variables which are under the control of the shipper, car type, weight, distance and type of service.

LIGHT CARLOAD—SHORT HAUL

Car Type	Weight	Distance	Type of Service	Cost/Car load
Box.....	20 tons	107 miles	Regular	\$92

Here we see that for a box car movement with a new weight of twenty tons, moving a distance of 107 miles in regular or averag type of service, the cost per carload has been estimated to be \$92.00.

LIGHT CARLOAD—LONG HAUL

Car Type	Weight	Distance	Type of Service	Cost/Carload
Box.....	20 tons	2,905 miles	Regular	\$514

If we just vary the length of haul in this case, to 2,905 miles we see that the cost is now \$514.00

% CHANGE

Car Type	Weight	Distance	Type of Service	Cost/Carload
Box.....	20 tons	107 miles	Regular	\$92
Box.....	20 tons	2,905 miles	Regular	\$514
		2,615% Increase		459% Increase

In other words, for a length of haul increase of some 2800 %, we get a much smaller increase in cost of only 550 %.

HEAVY CARLOAD—SHORT DISTANCE

Car Type	Weight	Distance	Type of Service	Cost/Carload
Box.....	60 tons	107 miles	Regular	\$107

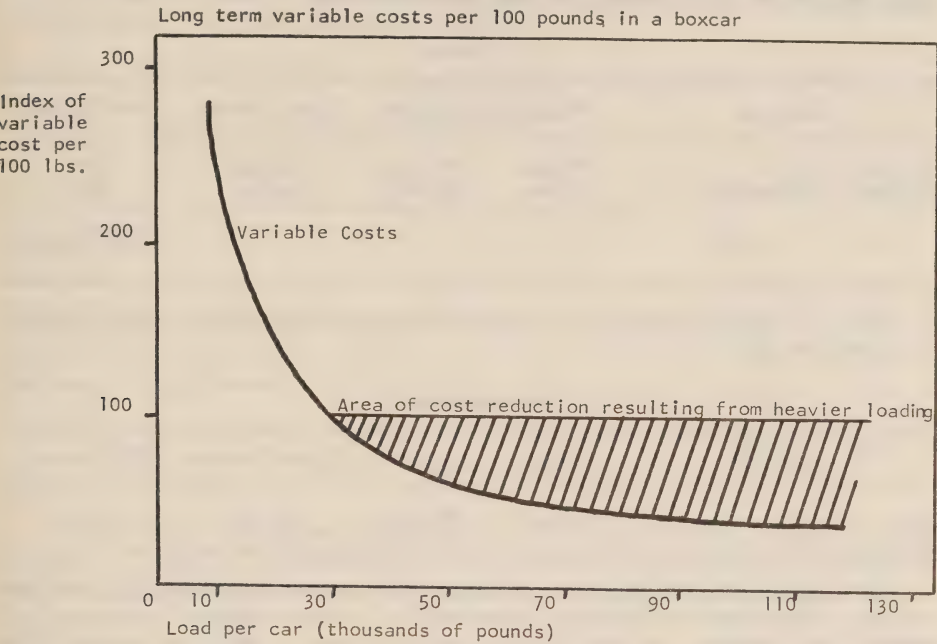
If we now vary the weight of the 20 ton payload to 60 ton payload and leave the other three variables unchanged (that is, a box car, 107 miles distance, in regular service), we see that the cost per carload becomes \$107.

% CHANGE

Car Type	Weight	Distance	Type of Service	Cost/Carload
Box.....	20 tons	107 miles	Regular	\$92
Box.....	60 tons	107 miles	Regular	\$107
		200% Increase		16% Increase

Comparing the difference in cost caused by the difference in weight, we see that a 200% increase in payload (that is from 20 tons to 60 tons) has caused only a 12% increase in cost, from \$92 to \$107.

Converting these figures to a convenient index results in this illustration of a general cost curve, showing what happens to the cost per hundredweight as the carload increases.



Along the left-hand side, you have an index of the variable costs per 100 pounds, and along the bottom you have a chart showing the weight in one car; and what this shows is that with 10,000 pounds weight in a car the cost is relatively high. We come down to 30,000 pounds showing an index of 100; and as you increase the weight in one car, the cost per 100 pounds in the car declines. Now, the total cost of moving the car obviously goes up if you are looking at total cost, but when you are looking at cost per 100 pounds you get a declining figure such as is shown here.

The shaded area shows the area of cost reduction resulting from the heavier loading. This is a cost reduction per hundred pounds.

Costs also vary according to the amount of terminal switching or terminal handling. If we consider changing the car type variable, say a mechanical reefer instead of a box car we see that this change in car type increases the cost to \$214 per carload.

SPECIAL CAR TYPE				
Car Type	Weight	Distance	Type of Service	Cost/Carload
Mechanical Refrigerator.....	20 tons	107 miles	Regular	\$214

Now, we have changed on this chart only the type of car from a box car to a mechanical reefer. A mechanical reefer costs much more than does a box car and is not as flexible in use as is a box car. But the costs have gone up here from \$92 to \$214 just by using this special type of car.

% CHANGE				
Car Type	Weight	Distance	Type of Service	Cost/Carload
Box Car.....	20 tons	107 miles	Regular	\$92
Mechanical Refrigerator.....	20 tons	107 miles	Regular	\$214
				133% Increase

In other words changing only the car type has increased the cost by 125%, from 92% to 214%.

SPECIAL SERVICE				
Car Type	Weight	Distance	Type of Service	Cost/Carload
Box.....	20 tons	107 miles	Special	\$101

If we now revert to our original movement, and consider changing the type of train service from a regular movement to a more frequent movement of regular train service, we note that the cost increases to \$101 per carload. The only thing changed on this is the type of service, from regular service to special. In other words, changing only this one aspect of service—the frequency of train operation—increased the cost by 10%.

% CHANGE				
Car Type	Weight	Distance	Type of Service	Cost/Carload
Box.....	20 tons	107 miles	Regular	\$92
Box.....	20 tons	107 miles	Special	\$101
				10% Increase

This is an increase from 92 to 101 just by a change in the type of service.

Therefore, we have shown you the change in car type, change in weight, change in distance, change in type of service and the effect it has on the cost of the movement to the railway.

Now, it is possible for people with special interests to arrive at radically different costs from the variable costs just outlined. This can prove very confusing, especially when it is done by methods that appear on the surface to

be credible. However, the deception is quite transparent to anyone knowledgeable in the field.

To illustrate some of the erroneous procedures employed, let us look again at the breakdown of total expenses by services.

1965 EXPENSES
(millions)

		% of total
Carload Freight.....	\$394	41.4
Passenger.....	111	11.6
Express Freight.....	110	11.6
Telecommunications.....	42	4.5
Unrelated to Specific Services.....	295	30.9
Total.....	952	100.0

This is the chart which was shown to you earlier, which shows the total expenses of the C.N. of \$952 million and shows the breakdown to the various services of the variable costs and those which are unrelated to specific service.

1965 EXPENSES
(millions)

Carload Freight.....	\$394	←
Passenger.....	111	←
Express Freight.....	110	←
Telecommunications.....	42	←
Unrelated to Specific Services.....	295	←
Total.....	\$952	

If someone wishes to produce cost figures which are higher than the normal variable cost estimates shown here, the usual method is to take the \$295 million of expenses unrelated to specific services, and to distribute it, in part or in full—depending upon the need—over the various services. The results are a considerably higher expense figure for each of the services and distorted percentages. Carload freight now becomes 59.9 per cent of the total as against 41.4 per cent by the correct method.

1965 EXPENSES
(millions)

			% of total
Carload Freight.....	\$394 + 176 = 570		59.9
Passenger.....	111 + 50 = 161		16.9
Express Freight.....	110 + 50 = 160		16.8
Telecommunications.....	42 + 19 = 61		6.4
Totals.....	\$295	\$952	100.0

● (11.00 a.m.)

What I am saying here is that the \$295 million which is shown at the bottom of the second column has been determined by analysis to be unrelated to any to the specific services and therefore if it could have been laid it already would have been put back against the service. What we do is take and prorate it back to these services on some basis. The basis we are showing here puts \$176 million against carload freight, \$50 million against passenger, \$50 million express rate and \$19 million for telecommunication. Now, this is basically wrong because if we could have divided the \$295 million we would have done this, but, because we could not, we have not. This still may not be high enough to satisfy the needs of the people doing it. Suppose they are trying to prove a point about a service which is carload freight that makes a positive contribution to income. They may then take the estimated deficit of a service that does not make a positive contribution and prorate or distribute the amount of a deficit over the remaining services. Both the expenses and the deficits shown here have been inflated by the previous step where unrelated expenses are distributed. What we are showing here is the passenger business.

PASSENGER DEFICIT
(after distribution of unrelated expenses)
(millions)

Expenses (inflated by a proportion of unrelated expenses)	Deficit (inflated by a proportion of unrelated expenses)	Expenses Remaining
\$161	\$97	\$64

Now the expenses on the left hand side have been inflated by the previous chart by dividing certain unrelated expenses which should not go against passenger but dividing it against them. This shows that there is a passenger deficit then of \$97 million and that the passenger revenues of \$64 million can cover only \$64 million of the total expense. The remaining \$97 million is a deficit and therefore the argument is that this should be prorated back against the other services. Here the deficit is distributed, leaving under the heading of the passenger only those expenses which can be met by revenue, that is, \$64 million. This puts a further distortion on the percentage figure.

Mr. HORNER (*Acadia*): Mr. Chairman, I would like to ask a question. On what basis did you prorate the \$295 million and on what basis are you prorating the \$97 million?

Mr. BANDEEN: It is on a proportional basis.

Mr. HORNER (*Acadia*): Ton mileage or passenger mileage?

Mr. BANDEEN: No, I am not endorsing any of these; I am just doing it proportionately to the expenses as they existed.

The CHAIRMAN: Mr. Horner, I wonder if your questioning could wait until the brief is finished and I will call you as the first questioner.

Mr. HORNER (*Acadia*): We would have it much better explained, Mr. Chairman, if we were allowed to ask questions with each chart.

The CHAIRMAN: I have been informed that the charts will come back for your questioning.

Mr. HORNER (*Acadia*): I am so afraid of your hammer that I will abide.

The CHAIRMAN: Dr. Bandeen, will you please proceed.

1965 EXPENSES
(millions)

		% of total
Carload Freight.....	\$570 + 69 = 639	67.2
Passenger.....	64	6.7
Express Freight.....	160 + 20 = 180	18.9
Telecommunications.....	61 + 8 = 69	7.2
	\$97 \$952	100.0

Mr. BANDEEN: On this particular chart we are showing how the \$97 million deficit of the passenger business calculated for this purpose is distributed to the three remaining services. It is done on a proportional basis to the size of the variable cost. In other words, the \$69 million bears a proportion to the \$97 million as does the \$570 million to the total of the cost. There is no attempt here to get into any type of a further sophistication because we are arguing that the procedure is incorrect in any case and we are just showing you what can be done. Now, there are many ways it can be distributed. We have, for this purpose, just shown a very simple arithmetical distribution. This worked a further distortion of the percentages forcing carload freight closer and closer to a deficit position. This protest can obviously be continued since each of express and telecommunications have now been pushed into a deficit column and their deficits in turn can be distributed. The process leads to the ridiculous conclusion that passenger express rates and telecommunications all break even and carload freight shows a loss. Either procedure of prorating individual expenses is meaningless and only calculated to confuse, but, if someone can get away with the confusion they have created the purpose of the subterfuge is served. Tactics which are so easily detected need be of no concern to any competent reviewing

body. If it is lower cost estimates which are required then a different approach is necessary. It involved the procedure just as incorrect, putting as much as possible of the two variable expenses into the unrelated expense category. The rationalization given for doing this is that the only expenses that really vary according to volume are the short term immediate expenses. All others such as maintenance of way, heavy repairs to rolling stock, et cetera, are considered to be fixed.

The method of doing it is to divide all expenses according to whether they are directly related to this year's traffic or to past years and future years.

1965 EXPENSES
(millions)

	This year's operations	Other years' operations	Total
	\$	\$	\$
Carload Freight.....	247	147	394
Passenger.....	73	38	111
Express Freight.....	83	27	110
Telecommunications.....	28	14	42
Unrelated to Specific Services.....	133	162	295
Totals.....	564	388	952

What we show here is this year's operation in the total column out on the right, the division of variable cost and the fixed cost, the total of \$952 million. These costs have been split between this year's operations at short term costs such as crew wages, things that are paid in here, and other year operations. Here we have maintenance of most of our facilities. Obviously the wear and tear in a year does not necessarily require a box car to go into a shop for a back shopping. However, it will accumulate over a period of years. Some people argue, if their desire is to get as low a cost as possible, that these costs are not truly variable. I obviously do not agree with that and I am showing it only as an example of what not to do.

The total of \$388 million which is considered to be related to other years' operations is added to the unrelated expenses, jumping this category to \$521 million.

1965 EXPENSES
(millions)

Other years' expenses included in Unrelated Expenses

	This year's operations	Other years' operations	Total
	\$	\$	\$
Carload Freight.....	247	—	247
Passenger.....	73	—	73
Express Freight.....	83	—	83
Telecommunications.....	28	—	28
Expenses unrelated to specific services.....	133	388	521
Total.....			952

These expenses, which are relative to other years' operations, may not vary immediately with traffic volume, but they do vary over a period of time. Therefore they are truly volume-related rates and are an essential part of the variable cost estimate. This is another deception which is easily detected by anyone competent in cost analysis.

NUMBER OF INDIVIDUAL POINT TO POINT COST ANALYSES PER YEAR

1961.....	13,200
1962.....	18,000
1963.....	24,700
1964.....	21,300
1965.....	21,900

This chart shows the number of individual point to point cost estimates made by the Canadian National each year from 1961 to 1965. The number increased from 1961 to 1963 as we gain knowledge and experience and as we have made increasing use of electronic computers. The total number of individual cost in the five years is just short of \$100,000.

Mr. HORNER (*Acadia*): What do you mean by from point to point. Is this divisional points?

Mr. BANDEEN: No, an individual movement. By point to point I mean a load which originates with a shipper and terminates with a consignee, the total movement; and of these there have been approximately 100,000 costed for our internal purposes since 1961.

The individual and very detailed components of our cost estimates are the building blocks of a cost system for management. It especially provides our marketing people with a tool they are able to use in establishing reasonable rates to the benefit of both the railways and the shippers.

At the same time, the low freight rate structure it helps produce, is one factor in building a healthy Canadian economy, where industry is able to compete in domestic and foreign markets. Thank you.

The CHAIRMAN: Thank you, Dr. Bandeen.

Members of the Committee, that is the presentation and perhaps it would be best if we could continue with Mr. Horner's questioning on that particular matter and these charts can be brought back. Does that meet with your satisfaction.

Mr. HORNER (*Acadia*): That was merely an exercise, a viable one, I might say. You never really showed us how or what you do with the variable costs. How do you put them on a shipment of goods. At least I never grasped in direct relation to the charts how variable costs are prorated. You said they could be done this way and they could be done that way but that is surely no good. You never really at any time said how you did it. Do you do it at all in estimating costs.

Mr. BANDEEN: I think there are two questions here if I understand it properly. The first one is how do we arrive at variable costs. The estimates that we showed you on the various charts as the costs of the movement, with the

variations in car days, box cars, these were the actual variable costs as estimated by the Canadian National for movements of this type. Now, we are in a unique position as far as costs are concerned. From a management viewpoint we have neither an interest in too high a cost nor too low a cost. Too high a cost will not allow us to be effectively competitive in certain areas and too low a cost, certainly under this proposed legislation, would be producing very low maximum rates as an initial instance; also it would be producing low subsidies in the areas where we have to claim subsidy for carrying out unremunerative tasks which are in the national policy. So the railways are in the unique position of not really desiring to have a cost too high or too low, but in trying to find out what really the true variable cost is. Now the costs we presented at the first are what we consider the variable costs from our analysis detail of the cost characteristics of the railway. The last chart showed that in the last five years we have produced approximately a hundred thousand costings. These are mainly at the request of the sales department which is dealing, of course, with the customers. They will ask us for a cost on a movement between two points which is either an existing movement on which the customer wants some rate action or a new movement which is proposed. We supply this cost to the freight sales department.

Mr. HORNER (*Acadia*): This is what I wanted to know. What cost do you supply? How do you prorate the variable cost figures, the \$295 million. How do you prorate that on a shipment of goods in setting out a cost statement?

Mr. GORDON: I think, if I may speak for Mr. Bandeen, Mr. Horner's difficulty is that he has not quite got the point. The breakdown chart shows the detail of each component that went in there. If you could bring that chart back it would be useful. We saw that chart. Then he says: "All right, you have shown me the particular components that have gone into the costing but I want to know what you do with the \$295 million." Is that the point?

Mr. HORNER (*Acadia*): Yes. How do you get it back?

Mr. BANDEEN: The \$295 million is not prorated. In the costing and pricing theory that the Canadian National and I think other railways adopt, in Canada at least, we do not prorate back the \$295 million. This bill does not suggest that we should. If you remember correctly, the bill said a rate to be compensatory must exceed variable cost only. That is without the \$295 million in it. The way that we price is an attempt to get the maximum net return from our total movement of goods, freight particularly, with the hope that by doing this we shall have sufficient contribution to overhead to cover the \$295 million. This is, in very capsule form, the practice.

Mr. HORNER (*Acadia*): Well, then, in making your 100,000 costings you never included any part of the \$295 million in any one of those costings?

Mr. BANDEEN: That is right. And, not only any part of the \$295 million but no part of the passenger deficit or any other deficit which may have occurred on the system.

Mr. HORNER (*Acadia*): You never used the \$388 million figure which you ended up with. You never included other year's expenses?

Mr. BANDEEN: Well, no, they are in the cost. We explained they are part of the cost. Now, maybe I should be a little more specific on that \$388 million. A

good portion of this is back shop repairs on equipment. Now, obviously we do not back shop—these are major overhauls of equipment—every year. We do some every three years or five years, some every ten years. But, during the year you do wear out equipment and there should be some cost for the wear and tear on equipment in there. However, there are some people who argue that back shopping done in a year is done because of use in previous years. Therefore, it is not a current expense. Our argument is that we should charge as variable cost any use which occurs in the year on the equipment. Therefore, as far as we are concerned, the \$388 million is included in variable cost. It can be related to specific moves and to specific services. The only argument is that sometimes you are spending money for use that occurred in the past or use that sometimes will occur in the future. It is related to the actual use of the year.

Mr. HORNER (*Acadia*): It is included in the fixed or known cost but not in the variable cost?

Mr. BANDEEN: No, it is included in the variable cost. It is a variable cost. The use that we get, from a piece of equipment which creates a need for back shopping at a future time, has to be put in as a cost.

Mr. HORNER (*Acadia*): This would be charged against passenger service or freight service?

Mr. BANDEEN: As the case may be.

Mr. HORNER (*Acadia*): As the case may be.

Mr. BANDEEN: In that particular instance we have good figures because our maintenance experience is kept on a car-type basis and this is one aspect of costing that is relatively simple.

Mr. HORNER (*Acadia*): Then the \$388 million would be figured in on the costings—the over 100,000 costings you mentioned.

Mr. BANDEEN: Yes, by all means. I mean there is no reason it should not be.

Mr. HORNER (*Acadia*): One other question that came to mind when you were going through your charts; you suggested that when a service is increased from what was regular service, costs go up 10 per cent?

Mr. BANDEEN: In this particular case, yes. We had to use a specific case but it does not apply to all.

Mr. HORNER (*Acadia*): That is not a general figure then that is a specific case?

Mr. BANDEEN: Yes, you cannot generalize on that because obviously it depends on experience. We do run from schedule trains and we showed a shot of a piggy-back train which you cannot always guarantee will be running at tonnage between the cities.

Mr. HORNER (*Acadia*): Then, one could not assume that if we had a regular service and it was discontinued and a special service was introduced, but at a reduced frequency, the cost would come down?

Mr. BANDEEN: Well, you would have to cost the individual movement to understand the total operation. It is impossible to say hypothetically whether the cost would go up or down.

Mr. HORNER (*Acadia*): Just for my own information, at the beginning of your remarks; you had a chart listing the cost items. You had one that suggested a cost of gross ton miles and a cost of net ton miles. Would not the gross ton miles include the net ton miles?

Mr. BANDEEN: Yes, but there are certain cost characteristics that vary individually with each of these. It does include it, but there are certain cost characteristics that vary only with gross ton miles and certain that vary with net ton miles. You have to separate them. If I can just find my sheet, I will give you the exact difference.

We are thinking, with regard to the gross ton miles, of the wear and tear on the track mainly and it does not matter whether it is included in the gross or the net ton miles. It is mainly wear and tear on the track. Now, on net ton miles, we find that this is related more to the operating and administrative costs. In other words this is a measure of the volume of traffic.

I have one correction I would like to make. Mr. Horner, perhaps I left the wrong impression when you were referring to \$388 million and I said that all of that was variable. I was quite wrong. If you remember the chart, some of it was variable and some of it was fixed. The variable portion of it, which is \$226 million goes into the variable. However, there was \$162 million of that which is fixed or unrelated and it, of course, goes in the unrelated.

Mr. HORNER (*Acadia*): One other thing that you left me in doubt about, you said that competitive rates must be compensatory and must cover—

Mr. BANDEEN: Variable cost.

Mr. HORNER (*Acadia*): —variable cost?

Mr. BANDEEN: Yes.

Mr. HORNER (*Acadia*): Not the fixed cost?

Mr. BANDEEN: I think this is a definition of compensatory that is generally consistent throughout the bill. It certainly is consistent with the economic thinking that if you can get a rate which will cover the variable cost it is to your benefit to solicit the traffic. In other words, if you can get a rate which exceeds the out-of-pocket cost it is better to take it and have some contribution to overhead than it is to sacrifice the traffic. What you have to hope is that you can get sufficient traffic and have sufficient contribution to overhead to be able to cover the total overhead cost.

Mr. HORNER (*Acadia*): But you suggested too, that the variable cost makes up only 30 per cent?

Mr. BANDEEN: No, that is unrelated cost which was 30 per cent, variable cost was 70 per cent.

Mr. HORNER (*Acadia*): Oh, I see. I had the two of them mixed. I understand it better now.

I have some other questions, perhaps for another witness, Mr. Chairman.

The CHAIRMAN: I will come around again. Mr. Howe?

Mr. HOWE (*Wellington-Huron*): Mr. Chairman, I noticed in both the summary, and in the main brief, presented to us that it says it is also desirable

there be no large costing staff developed by the commission. Now why does the Canadian National feel that the commission should not have a good competent costing staff, in view of the importance of this question?

Mr. GORDON: Well, we are not suggesting that the commission have no costing staff. We are merely pointing out it involves a mass of detail which we would be perfectly willing to supply to the commission at their request, so they can check our work with a relatively small staff, and they do not need to go through all the detailed operation in regard to specific items. Is that a proper reply Dr. Bandeen?

Mr. BANDEEN: We are not suggesting they should not have a competent costing staff because they obviously have to have one. What we are trying to suggest here is that they should not necessarily emulate the experience of the United States where the Interstate Commerce Commission had built up a huge cost staff which actually goes about doing costing instead of being in a position to advise and check the costing done by the railways. We were hopeful, from reading the bill and the general tenor of it, that what was being planned in Canada was a small competent group to be attached to this commission which could oversee what the railways were doing and correct it and make them make changes, but not to try to duplicate the work which the railways are doing.

Mr. HOWE (*Wellington-Huron*): Mr. Chairman, what is the present staff attached to the Board of Transport Commissioners? Do they have a costing staff at the present time?

Mr. BANDEEN: I really ought not to speak for them; but they do have a costing staff. I do not know the exact size of it. I know that they have four or five people whom we have seen who have come to talk to us about costing, and I presume that they have a much larger staff than that. We have seen four or five of their key people in costing.

Mr. HOWE (*Wellington-Huron*): Probably you cannot answer this question, but has it been an efficient staff? Has it been going into your costing well enough to give the proper picture to the people who are examining it.

Mr. BANDEEN: This is just my opinion of course. The Board of Transport Commissioners, I think in anticipation of this type of legislation, has been building up their costing staff in the last few years and we have had a liaison with them in the sense that they wanted to see what we were doing in detail, and how we were proceeding in an attempt to evaluate it. Their members have had access to all of our working papers and research, and we have turned it over to them.

Now, I am not saying by this that they have approved what we are doing necessarily, but we have given them all the details, the background, the research, the data, and let them have access to it. They have had, as I say, four or five people down, some for a period of two or three months with us, and I think that they probably have become very familiar with our methods. Also over this period, of course, we have presented certain cases to the board for abandonment and other purposes, and in those cases they have reviewed our costs in great detail and have come up with an opinion on them which they have felt competent to do and are competent to do.

Mr. HOWE (*Wellington-Huron*): Mr. Chairman, the witness mentioned the Interstate Commerce Commission in the United States, and I notice the reference made to the recent bill that has passed in the United States. It says, "It is hoped that Canada will learn from the United States experience and obtain the benefits which should flow from the new declaration of the national transportation policy. At the same time, it should be recognized that there are serious deficiencies in the United States system, the duplication of which should be avoided in the Canadian control machinery." Now, there was a newspaper item the other day saying that there is a lot of people in the United States who are not happy with the new transportation policy. Now, what are the deficiencies in their policies that we want to eliminate in ours.

Mr. BANDEEN: I think we have got two things confused.

Mr. J. W. G. MACDOUGALL, Q.C. (*General Solicitor, Law Department*): Perhaps I may make a comment on that Mr. Howe. I am not sure whether your question goes to the workings of the Interstate Commerce Commission or whether it goes to the question of the new national transportation body that has been set up.

Mr. HOWE (*Wellington-Huron*): Well, this is what I mean.

Mr. MACDOUGALL: Well, the new national transportation legislation that they have in the United States in so far as the regulation of railroads is concerned, is mainly directed to the general sort of administrative and research aspects. They have not attempted by that to take over into this new body the functions of the Interstate Commerce Commission in regulating and controlling various modes of transport. They have only transferred various safety obligations or responsibilities of the Interstate Commerce Commission to the new body. But the point we were making here I think is that we have some fear that a large administrative body such as is proposed, the new transport commission, could develop some of what we consider the undesirable aspects of the Interstate Commerce Commission, and these are along this line. The Interstate Commerce Commission controls the regulation, not only of the railways but of water carriers and of highway carriers, other modes of transport, and in their consideration, for instance, of railway problems or railway rate problems, the tendency for them and by their legislation is to give consideration to what is the effect on other modes of transport. We do not do this in Canada and this bill is established on the basis whereby where there is competition, competition will govern and control the various and different types of modes. Where there is no competition and the man is a captive shipper, then there is a protective machinery to look after him.

Now, in the United States, you will get the Interstate Commerce Commission looking at a railway problem, but always looking over their shoulder to see what the effect is on the barge lines; what is the effect on the trucks. There is an endeavour to preserve the competitive relationship rather than to allow the competitive relationship to find its own level, and we have, from our experience, some feeling that that is not the best thing for Canada and we hope that type of thing will not develop.

Secondly, the Interstate Commerce Commission, because of its great size, is in our view very unwieldy; there are a great number of procedural delays, very complicated proceedings, matters that we have been involved in there and other

railway companies often times go on for many years, and they use this type of system that is proposed for this new transport commission of dealing by various types of committees—a railway committee, a truck committee, or a finance committee, and they have procedures which allow them to proceed from committee to the main commission, and various things of that kind. So we are anxious to see that the present administrative processes are not complicated by additional regulatory machinery of that type which the Interstate Commerce Commission has. We look at our Canadian scene and the American scene; we prefer the Canadian. We do not wish to see the Canadian become more closely identified with the large, unwieldy type of organization which the Interstate Commerce Commission is because of the procedural delays that have flowed from that type of system. And also, as you know, from the point of view of appeal procedures, in Canada we have the system now where under Section 53 of the Railway Act, when matters are dealt with before the Board of Transport Commissioners, appeals may be taken to the Supreme Court of Canada or to the Cabinet, Governor-in-Council. Well, the Interstate Commerce Commission type of procedure is that they have appeals from the committee to the commission itself and further other types of rehearings and so on, which are, in our view, the type of thing that would complicate the regulatory machinery, slow it down, make it more difficult to work in a competitive environment. We do not wish to see additional regulations of that kind imposed on the Canadian scene so that in addition to what we have at present, we would have the additional types of things that the Interstate Commerce Commission works under. So we have some general fears that the new body could, if it does not confine itself more closely to the research aspect, and the administrative aspects, and if it were to give greater emphasis to the regulatory control type of thing, such as the Interstate Commerce Commission does, we could get into some of the unwieldy, delaying processes and we could get into the problem of the intermoted competitive problem which they have down there.

Mr. HOWE (*Wellington-Huron*): In other words, Mr. Chairman, do I gather that the present system we have in Canada of a Board of Transport Commissioners and an Air Board, is much better than the new one that they have set up in the United States?

Mr. MACDOUGALL: I do not think really the new system they have set up in the United States is comparable to ours, because it is really an attempt to set up another department of government really rather than an administrative board. There is a little confusion about that, I think, but the new transportation policy there is really directed towards establishing a new administrative body under the Secretary of Commerce, rather than a new aspect of the Interstate Commerce Commission.

Mr. CHAIRMAN: If you recall the Minister's own statement and the questions you will realize that they are just trying to set up a department of transport; whereas we have the Department of Transport. As Mr. MacDougall stated they are setting up another department of government, as we now have.

Mr. HOWE (*Wellington-Huron*): We are setting up a new commission here in this legislation. Mr. Macdougall, I gather from you that you are a little bit worried about this new commission; that it may become somewhat like the

American one, a little bit unwieldy with staff and people and controls and everything that goes along with it.

Mr. GORDON: That is what our brief said.

Mr. MACDOUGALL: I think that is right, Mr. Howe, we have a genuine fear based upon our knowledge of the experience in the United States with the Inter-State Commerce Commission. We feel not only can this be detrimental to our position to release our forces for competitive endeavour with other modes of transport, but we think it could work against the public interest as well.

Mr. HOWE (*Wellington-Huron*): In other words, you are not too happy with this bill?

Mr. MACDOUGALL: No, I do not say that we are not too happy with the bill but, I think that aspect of it gives us cause for alarm.

Mr. HOWE (*Wellington-Huron*): One further question, Mr. Chairman.

Mr. GORDON: I would like to say this, Mr. Chairman, and I think it is an important point. We are not objecting to the commission as such; we are simply warning that it ought to be operated along certain lines.

Mr. HOWE (*Wellington-Huron*): That it does not go flying off in tangents—

Mr. GORDON: That is what we are doing. We are pointing out that that could happen and we hope that the record in this Committee will bring that question mark right to the surface when the report is being set out.

Mr. HOWE (*Wellington-Huron*): The final question that I have, Mr. Chairman, for Mr. Gordon, is in connection with the subsidies that we have already been paying to the railroads and which we understand from the Minister and from statements made are well over \$100 million; they might be closer to \$200 million. Now, this is quite a bit of money and we are all conscious of the build-up of our economic costs these days in Canada; freight rates have a very tangible effect on the cost of everything. What impact will this have on freight rates? Now, we go back to the Freight Rate Deduction Act of 1957 or 1959, where there was a subsidy provided to prevent or to stop a 17 per cent increase across the board in freight rates, if I remember correctly. If the subsidies are going to be removed does this mean within the period of time the freight rates will be increased by 17, or 20 or 25 or 30 per cent by the railroads to compensate for the fact that they are not going to be given a subsidy?

Mr. GORDON: Not necessarily so. You cannot fix that particular point. It is true that this legislation is aimed at removing the subsidies over a gradual period of time. Now, obviously, the moneys have to come from somewhere, and our hope is that when the railways are relieved of the kind of restriction and regulation and so forth and we get into a truly competitive area, we will be able to develop our own business in such a way that we can make a margin of profit that will absorb some of the previous needs for subsidy. It really boils down then to our ability to compete. If we are not able to compete in specific areas, then we will not handle that business and it will go to other modes of traffic. We should keep in mind that this bill is not a railway bill; it is a bill which is trying to clear up the national transportation policy. It affects all modes of transport, and, keep in mind, I would suggest always, the main purpose of the MacPherson Commission is to say that the best regulator in the transportation

industry is the force of competition. This is what this legislation is going to achieve. I do not think anyone can forecast the precise impact which it might have either on the railway freight rates or on trucking rates or water rates or anything else. That adjustment will have to come about depending on what costs have to be absorbed in due course in handling the business. There will be technological changes as well as other considerations which will come into it.

I think I am right, Dr. Bandeen, and you will agree, that you cannot precisely make any forecast of what the impact will be on freight rates as such measured against the subsidies which are coming out.

Mr. BANDEEN: We are hopeful that we can absorb some—it is \$110 million for both railways.

Mr. HOWE (*Wellington-Huron*): That does not include what is going to be necessary for this new wage increase—

Mr. GORDON: I am very happy to have you tell me that it is necessary. The government has not admitted that so far.

Mr. HOWE (*Wellington-Huron*): Well, probably they have not been able to get into your costing business yet.

The CHAIRMAN: Mr. Howe, I will have to allow extra time on this. I will come back to you if you have more questions on it.

Mr. HOWE (*Wellington-Huron*): Thank you very much, Mr. Chairman.

Mr. SCHREYER: Mr. Chairman, I would like to ask if the system of cost accounting in use now by the Canadian National Railways and the Canadian Pacific Railways is a uniform system of accounting, at least, uniform in a major respect.

Mr. BANDEEN: Between the two railways?

Mr. SCHREYER: Yes.

Mr. BANDEEN: Yes, the principles of costing used by the two railways are identical. There are some differences because obviously we have different types of railways running in different areas and slightly different administrative approaches but, as far as the principles go, they are the same.

Mr. SCHREYER: And is this because it is prescribed by the Board of Transport Commissioners, or is it because it is simply worked out by the two railways?

Mr. BANDEEN: No costs have been prescribed by the Board of Transport Commissioners yet to the best of my knowledge.

Mr. SCHREYER: Not costs but the prescription of a uniform system of accounting.

Mr. BANDEEN: No, this is something that grew up between the two railways.

Mr. GORDON: Excuse me, he is talking about a different thing. He is not referring, as I understand it, to cost accounting. He is talking about the uniform system of accounting which was put in force by the Board of Transport Commissioners some years ago.

Mr. BANDEEN: The uniform accounting system, yes. There is a uniform method of accounting prescribed by the board but this is not costing, this is accounting.

Mr. SHERMAN: Dr. Bandeen, to refer for a moment to a point which Mr Schreyer was touching on with respect to the principles of costing employed as opposed to the accounting principles, do I understand you correctly when you say that the principles of costing employed by the two railways are identical?

Mr. BANDEEN: Yes, the principles.

Mr. SHERMAN: So the other railway—the CPR—would also have a category that would be a counterpart of your category on expenses unrelated to specific services?

Mr. BANDEEN: Yes, they would.

Mr. SHERMAN: Would their approach, in so far as you would be able to answer this question, to prorating of the total of unrelated expenses be the same as yours?

Mr. BANDEEN: Yes, this was a joint presentation in so far as the principles went and the CPR endorsed the presentation I put forward this morning. They actually participated in making the presentation.

Mr. SHERMAN: And you said in your presentation that in your case the sum which totalled \$295 million is not prorated at all.

Mr. BANDEEN: That is right and it should not be at all. The Canadian Pacific endorses this same position as ourself.

Mr. SHERMAN: So can the Committee conclude that the unrelated expense sum in the Canadian Pacific Railway's statistics would not be prorated at all either.

Mr. BANDEEN: That is right. Well, I should not speak for the CPR in detail. I am sure they will be here at a later date. My understanding is that they would not prorate any of this to a variable cost which they were calculating at all. All they try to calculate is the variable cost of a particular movement, and they do not in any case prorate the overhead nor do they prorate any of the deficits which occur, if there are deficits, such as passenger.

Mr. SHERMAN: Did you have a question, Mr. Byrne? Would you like to ask it now?

Mr. BYRNE: No.

Mr. SHERMAN: Dr. Bandeen, where would the category covering technological developments and research be entered in your breakdown of expenses, your bookkeeping breakdown? There was no such entry on any of the charts which we saw this morning.

Mr. BANDEEN: The research costs generally are in headquarters administration and would be almost exclusively in that category of unrelated to specific services.

Mr. SHERMAN: Would the same apply—

Mr. GORDON: I am just wondering if there is still a little bit of confusion here. I do not know whether I can make it worse or not. But, I think if you try to get this concept it will become clearer.

Regard the \$295 million as generally speaking what other businesses refer to as overhead. It is not quite that but it is close enough. Regard it as overhead. Now, you have seen our analysis of expenses in connection with the different component parts. When we get that we arrive at—in any particular example—what it costs us to handle that traffic. That is the variable cost. When you get it all added together in the various headings—and we have \$295 million to absorb—that means that when we are setting rates that the margin between the rates we are setting, having found our expenses, and what we collect as revenue has to be enough in one way or another to absorb the \$295 million. If we want to make a profit we have absorb more than \$295 million. Does that make it clear?

Mr. SHERMAN: Yes, sir. Thank you.

Well, technological developments then such as work that you might be doing on developing specific grain loaders and unloaders would be covered in this category of unrelated expenses. Is that correct?

Mr. BANDEEN: By and large, yes. I think totally they are covered. When it is in the research stage. When you get to the experimental stage it might change, but if you are still in the research stage it will be in the unrelated—

Mr. SHERMAN: Mr. Chairman, I would just like to ask Mr. Gordon a question or two now. Thank you, Dr. Bandeen. Mr. Gordon, do you agree with the Prime Minister's contention that one of the prime objectives of Bill No. C-231 is to allow the railways to become competitive and that this objective is perhaps more important than some other consideration?

The CHAIRMAN: Mr. Sherman, I do not know whether Mr. Gordon has ever seen the telegram. Perhaps you could bring it to his attention. It is not before the Committee.

Mr. SHERMAN: I wonder if I may introduce at least some sections of the communication from—

Mr. GORDON: I have not it before me; I have not seen any statement by the Prime Minister along the lines you mention. I am not aware of it.

The CHAIRMAN: Do you want to table it with the Committee, Mr. Sherman?

Mr. SHERMAN: Yes, I would like to do that, Mr. Chairman. The telegram is from the Premier of Manitoba, Premier Duff Roblin, to the Prime Minister.

Mr. CHAIRMAN: Oh, you made reference to a telegram from the Prime Minister.

Mr. SHERMAN: No, I am making reference to a contention of the Prime Minister.

Mr. CHAIRMAN: Do you have the document here?

Mr. SHERMAN: I do not have the Prime Minister's original telegram in front of me. I have Premier Roblin's telegram to the Prime Minister in response to a communication that he had from the Prime Minister in which he suggests that

his reading of the Prime Minister's position on this bill is that an objective of it is to allow the railways to become competitive, and if I may just quote—

Mr. CHAIRMAN: But, Mr. Sherman, I am not saying that what Premier Roblin says is not so, but without the two documents together, I think it would be unfair to comment on what you say the Prime Minister's telegram had to say, and if we can get a copy of the Prime Minister's telegram and table it along with Premier Roblin's answer I think that would be the best thing.

Mr. SHERMAN: I can do that, but may I then just ask a question of Mr. Gordon based on a statement that I am extracting from the—

Mr. CHAIRMAN: Ask you question, Mr. Sherman, and then perhaps later on when we have the other document—we could get a copy I gather from the same source as you received that copy from—you can table them both. How would that be?

Mr. SHERMAN: That is fine, Mr. Chairman.

Well, Mr. Gordon, let me put it this way. Would you agree with the Premier of Manitoba that the prime object of the royal commission and presumably of Bill No. C-231 is the alleviation of the disproportionate burden presently borne by captive shippers in Canada?

Mr. GORDON: I do not think I could be expected to make an offhand comment on just one item of apparently an exchange of views. I do not know. I have not seen anything of what the Prime Minister said. I do not know what his reply is and I would be fearful that unless it is considered in the context of the whole thing and the policy respecting the bill and everything else connected with it—and I would not be competent to express a view even if it would be appropriate for me to do so. I doubt whether I should comment on the Prime Minister's statement.

The CHAIRMAN: Mr. Sherman, if the Chair could assist you, suppose I were to give you all a copy of the Prime Minister's telegram, I do not seem to have it, I will come back to you and have them both tabled and you can then rephrase the question. How would that be?

Mr. GORDON: All right, that is fine.

The CHAIRMAN: Mr. Sherman, if you would let us have it and we let Mr. Gordon see both the telegram and reply, I think that would assist your questioning.

Mr. SHERMAN: Fine, Mr. Chairman.

Mr. OLSON: Mr. Gordon, the provisions of this Bill in so far as ratemaking or setting rates is concerned, and particularly section 336, do not apply where there is alternative, effective and competitive service for any shipper. Therefore, the railroads are going to have almost complete freedom to make rates in line with the competitive forces at work except where they fall into this category defined in Section 336, where they say "there is no alternative, effective or competitive service." Therefore, as far as the legislation is concerned, and the people who are passing this legislation, as far as rate-making and maximum rate control is concerned, this is about all that we need to be concerned about. That is where you have what is referred to as a captive shipper and then that is defined.

Then, Section 2 goes on to say that the commission will have the power to fix a rate equal to the variable cost of the carriage of goods at an amount equal to 150 per cent of the variable costs and then all of the other provisions as to the weight of the cars, and so on, are provided in subsequent subsections of that particular section. I think you said a few moments ago that your company would be willing to supply the cost detail to the commission. Would you be willing to supply that cost detail to the Committee so that we could have it applied to certain specific commodities between certain specific points?

Mr. GORDON: It seems to me we recognize that the legislation generally gives freedom to the railways to set rates subject to the condition that they must be compensatory and also in respect of the special provisions made to protect the captive shippers, and that refers only to the specific variable costs of handling freight and excluding costs of other railway operations, but that still leaves us sufficient margin, we presume, to enable us to take care of the captive shipper traffic.

Now, in regard to your other point, that we provide the Committee with specific information, I take it you mean by that that we would be willing to take a particular case or a series of particular cases and analyse before the committee the figures that we used in order to arrive at our costs in regard to that particular shipment.

Mr. OLSON: Yes.

Mr. GORDON: Now, if that is what you have in mind, I am afraid that we would have to take the position that that would simply ruin our competitive position. By doing that, we release our figures to our competitors, who incidentally are not required to do the same, and we could not stand up against the competition that that sort of thing would bring about. It is absolutely vital to us that those cost figures should be protected. Now, we have said that in particular cases, we would of course supply the commission with our costing figures, and the bill says that they are to be kept confidential, and in our brief we have objected to any principle that would require us to disclose the costing information.

Mr. OLSON: Mr. Gordon, I am having some difficulty to understand why this is going to be useful to your competition and detrimental to you when in most of the cases we are interested in, it points out that there shall be no alternative, effective and competitive service. If you do not have any effective competition, for these particular specific commodities, and so on, how could it be useful to your competition. They are not competing with you anyway.

Mr. GORDON: Would you take that on, Dr. Bandeen. You are talking now to the narrow point of the captive shipper.

Mr. OLSON: Mr. Chairman, Mr. Gordon, as I pointed out in my opening remarks, I do not think that this Committee should be exercised, or spending a lot of time trying to establish or to satisfy themselves of the methods of setting variable costs or even rates in areas where we do not have to invoke the provision for the captive shipper. As far as I am concerned there is no problem, the forces of supply and demand and competition will take care of setting a rate. If they do not like your rate they can take someone else's rate or someone else's service. I am interested in maximum rate control where it is applicable?

Mr. J. C. GARDINER (*General Manager, Pricing and Development, Freight Sales Department, CNR*): Well, sir, the best way perhaps to give you an example would be to consider a movement that would be from Winnipeg to Churchill, Manitoba, and for someone to come along and say this is obviously a movement for which there is no effective competitive alternative highway service. If we supplied you, under this assumption, with the cost in all detail, we would then be hurt, we feel, in having to meet the following week a competitive situation from Winnipeg to a point approximately the same distance in western Canada. In other words, if Churchill is 650 miles from Winnipeg, you get a point in western Saskatchewan, let us say, 50 miles longer than the distance from Winnipeg to Churchill. So you have the shipper saying: Well you have released information which says you can move traffic 650 miles in western Canada in territory roughly like ours; we are 50 miles further. There you are with a rate which we would have been satisfied was fully competitive vis-à-vis a truck, but the man would be attempting to drive the rate down.

These negotiations are carried out always with both the railway and the shipper involved, having in mind that he must use every bit of information at his disposal. At the same time I have to say honestly that the shipper does not always let us have some of the information that we would need. So if by the exercises we have gone through in this room we would have supplied him with one additional bit of information we feel that we could end up in being pressurized rightly or wrongly. We have a large number of men having to carry through these negotiations and you would have individuals who would be pressured into providing a competitive rate that would be unnecessarily low. This is what we are afraid of. I do not know if I have talked too much but this is our problem.

Mr. GORDON: I think you can realize that if you take a specific shipment, that is, for a captive shipper, that particular type of shipment could quite easily be duplicated at a competitive point. And, the shipper at the competitive point, knowing about the other situation, could then use the information which has been brought out in connection with the captive shipper, if it were made public. It does not necessarily mean that because a shipper is captive there is nothing else duplicating his operation in the rest of the country. This could quite easily be.

Mr. OLSON: You anticipate then that whenever these variable costs are supplied to the new transport commission, if a shipper applies for a rate and satisfies the requirements of being confined to a railroad, that all of this variable cost data will be kept from him? It will be kept from the shipper and from the public?

Mr. GORDON: Yes. It would be given to the commission but we would not wish to give the cost information to any shipper.

Mr. OLSON: Well, Mr. Gordon, how can the members of this Committee, in your view, determine the effects of this maximum rate control if they have absolutely no specific variable cost data to make the calculations that add up to what is provided in here?

Mr. GORDON: Well, I do not think you need to do that, if I may say so. I do not think that is really what is before you in the bill. The bill makes it quite clear that the effort is to change the whole system with regard to rate making

and regulation of it. It says, as I mentioned in my opening statement, that the force of competition now becomes the regulator, subject to the fact that the rate must be compensatory. We can be challenged on that and we have to prove that it does return our variable cost.

Second, the bill takes a special interest in the shipper who is called "captive". These are the only two positions. Apart from that, competition is going to be the regulatory force. If it is done properly, and I am quite sure it will be, it will ensure that you get the lowest cost land transportation for any shipper. He will be able to select the mode of transport that will give him the lowest rate or the best service, as the case may be. The two things have to be rolled together. The shipper has to decide or select which mode of transport will best suit his purpose, with regard to price and service.

Mr. OLSON: Mr. Gordon, I have no disagreement with you at all that where the forces of competition are effective there is no problem. I am not talking about the shipper who has an alternative by means of competition. I am talking about where there is no alternative, effective or competitive service.

Mr. GORDON: Yes.

Mr. OLSON: And in this case, are we going to write legislation which is going to protect the maximum rate that could be applied under the formula prescribed in clause 336 without any knowledge at all of the railways calculations of what variable costs are going to be on specific items and compare that, for example, to what is being charged now under agreed charges or other maximum rates that have been fixed by the Board of Transport Commissioners? As you have pointed out there is a whole new set of circumstances that will be applied in this maximum rate making. It is all spelled out in Clause 336. I am one member of this committee,—and I presume there are a lot of other members—who is, interested in what the effect is going to be of applying this new formula without any variable cost data that the railways will be using when they try to calculate the maximum rate under this class of shipment. How are we going to assess in advance of passing this legislation the effect of applying this new formula? It seems to me it is an impossible thing to do. We have no idea, unless we get some of the variable costs, of what the effective or maximum rate is going to be for shippers that fall into this category. The others I am not interested in because competition is going to look after that.

Mr. MACDOUGALL: Could I just make a comment on this Mr. Olson? The present maximum rates are the class rates which really only handle about 5 per cent of our traffic or revenue. These are the areas in which you might consider captive shippers are going to be found. Most of the people that are in the category of the so-called captive shipper are not unprotected just because there is not a trucker available to haul his goods. There is market competition and various types of things so that the rates for that traffic are dictated today by all kinds of other competitive forces which come into play. It means that very few people are paying the maximum class rate today. Therefore, the so-called captive shipper is not somebody that is completely unprotected. It should also be remembered that this small group will have a captive shipper maximum rate fixed for movements of 30,000 pounds. And, above 30,000 pounds he is not a captive at all; he has a whole area of negotiation with the railroad. He can negotiate the rates; so that the point of this legislation is to provide a means

whereby this man, who has not got a form of truck competition, let us say, available to him, will have a simulated form of truck competition, and the maximum rate schemes worked out to provide him with what is not available, namely, a simulated type of truck competition at the 30,000 pound level. If you look in our freight classification, you will find that most of our class rates today are at the 30,000 pound level.

An hon. MEMBER: Are which?

Mr. MACDOUGALL: Are at the 30,000 pound level, in the classification; but above the 30,000 pounds, he has all the freedom to bargain and compete with the railway on the basis of his rate.

Mr. OLSON: How do we know that some of these class rates which are in effect now are not producing rates which are five hundred, or even seven hundred, percent above variable costs?

Mr. MACDOUGALL: Well, there may be some rates that can do that. . .

Mr. OLSON: I find no analogy or parallel between the present class rates and the variable costs because we do not know what the class rates are in relation to the variable costs as of 1966. Has this information ever been made available to the public, or to the members of the committee? Is it available now?

It is not available now, so we are completely in the dark. We do not know what the class rates produce in relation to the variable costs.

Mr. MACDOUGALL: Well, you would have to take each individual shipment. Some of them you might find where 10 per cent over the cost, or it might be 500 per cent, I do not know; but there would not be very many in the 500 group.

The CHAIRMAN: We will come back to you. I have allowed you some extra time because of the importance of the question.

Mr. ADDISON: Mr. Gordon, in talking about the west, I would like to bring up this matter in your recommendation on page 7, with regard to the commuter services, whereby you feel that the railways should be free to set their own competitive rates. I would like to ask you one or two questions. The first one is: Are you happy with the arrangement that the CNR has worked out with the Province of Ontario, which is really putting the Province of Ontario in the railway business insofar as the new commuter services between Hamilton and Oshawa are concerned?

Mr. GORDON: Yes, we think that the arrangement we made with the Province of Ontario is quite satisfactory; and, of course, the Province of Ontario sets the rate. They set the rate; we merely operate the service for them as managers and operators, but completely within an area.

Mr. ADDISON: Do you not feel, Mr. Gordon, that it is the responsibility of the CNR, or the CPR, to make an investment in equipment to operate commuter services throughout Canada, and, if subsidies are required, would it not be up to the provinces to provide the subsidies to the railways rather than really allowing the provinces to go into the business for themselves?

Mr. GORDON: It depends entirely on the circumstances. You may have people in a certain area who wish to have a specialized type of service, and the government in that area may decide that it is in their own interest to provide it.

You must remember that this is not a one-way proposition. It is very beneficial to the Province of Ontario to have control of the commuter service and the rates, because what they are trying to do there—we have had it explained to us—is to provide a service of a type that will attract people from the highways, and by so doing, there will not be a necessity for building two or three super highways to take care of the traffic; and it is much cheaper for them to subsidize, if you will, a commuter service to get volume traffic that will take the travellers off the highway. They have a very special interest in that because building highways is a very expensive matter, much more expensive than the modest amount of subsidy they might have to provide to attract the commuter.

In their discussion with us, indeed, they were quite frank in saying that they would go down to any price necessary to make the scheme a volume success. The more people they could get to travel on the commuter trains the better they liked it, because it reduced the need for building highways, which is a horribly expensive affair.

Mr. ADDISON: My point is that it seems to me that the railways in Canada are just not interested in operating commuter services.

Mr. GORDON: Well, I would not disagree with that. I personally do not think there is any obligation on a railway to run a commuter service. It does not belong to our type of business, really, and it is more or less by accident that we have become worked into them in certain areas. We just went into it without much thought at the time it originated, and we cannot get rid of them. I do not know if my successor in office is going to agree with me, but I would say I would be damned glad to get rid of every commuter service we have got.

An hon. MEMBER: That is quite evident.

Mr. GORDON: And for good reason; because by and large it is not the proper solution; it is not the correct solution for dealing with the needs of a growing metropolitan area. It is not the solution. It should be done by rapid transit types of operation meshed in with buses, subways, and every thing else belonging to the complex; because what is becoming more and more clear to anybody who has studied the thing is that the clever thing to do is to keep people from driving their cars down to the centre of the city and causing complete and hopeless congestion. The centre areas have become completely stifled by this, and we have got to relieve it by other methods.

Mr. ADDISON: I will not belabour the point, Mr. Gordon, but your suggestion here is that you want commuter fare—the ones that are operated by the railways—left free to be adjusted to competitive rates. That is what you are asking?

Mr. GORDON: Quite; I think we are entitled to that.

Mr. ADDISON: That really means that you want to get out of the commuter service, or . . .

Mr. GORDON: I will not disagree with that.

Mr. ADDISON: Right.

Mr. GORDON: But, mind you, it is always open to the community to take action itself.

Mr. ADDISON: I appreciate that; but this is the attitude of your railway—to get out of the commuter. Then why even ask us to make the rate competitive, when all you are going to do is drive the people away from the trains?

Mr. GORDON: No, no. We are still in the business. We are locked into it in various places, and our feeling is that there is no reason why the railway should be forced to subsidize that traffic; and we should be able to get compensatory rates the same as anyone else. I do not see any reason why the commuter traffic should be specially indulged. Why should Mr. Horner have to pay to service the people of Montreal and Toronto? That is what is involved in it.

Mr. ADDISON: One more question, Mr. Chairman: Would you be happy to operate commuter services if the provinces picked up the deficit.

Mr. GORDON: Well, we are doing it in Toronto and we would be prepared to do it. . .

Mr. ADDISON: In Montreal, for instance.

Mr. GORDON: We are perfectly willing to cooperate and to face the community problem, and to the extent that our portion of it needs some help from the railways, we will do that; but that is only a portion of a very much bigger problem.

Mr. ADDISON: I appreciate that. But you would be in favour of the provinces picking up the deficit and your operating the commuter services?

Mr. GORDON: I will not say that, because again it depends on circumstances. What is true of Toronto is not necessarily true of Montreal. The Province of Ontario has a different kind of obligation in and about Toronto than the Province of Quebec might feel they have in connection with Montreal. I do not know. That is their attitude. I cannot comment on that.

Mr. MacMILLAN: If I may just supplement Mr. Gordon's answer to some extent, the critical situation in Toronto, you will remember, is quite different to that which prevails in Montreal, in that the commuter service in Toronto is running from roughly Pickering through to Hamilton on two services, and the main station is the Union Station; but it is a through movement, and everyone is not going to get off at the station; there will be a flow through. Whereas in Montreal, in our station it is a sub-station; everyone will detrain there and these arrivals and departures are all concentrated in a very short space of time in the morning and in the evening, and horrible congestion takes place as a consequence of it, which makes it very difficult for us.

Mr. ADDISON: My point—and Mr. Rock can probably confirm what I say—is that each time the railways seem to get involved in this the extent of their involvement is to take the commuter trains off, or raise the rates; and the people who use these facilities want these facilities.

Mr. MacMILLAN: Yes; and we are quite prepared to operate them if someone will look after the loss on them.

Mr. ADDISON: Right.

● (12.10 p.m.)

Mr. Rock: Is it not a matter that you are trying to delete something in the bill, which, I think, shows a direction to abandon the commuter service?

The CHAIRMAN: I will come back to you, Mr. Rock. Mr. Byrne?

Mr. BYRNE: Mr. Bandeen, when you were commenting on the costing methods you said that—

The CHAIRMAN: Would you speak into the microphone, please?

Mr. BYRNE: —under some circumstances the fixed cost may be improperly apportioned to the variable cost?

Mr. BANDEEN: Yes?

Mr. BYRNE: This would happen under what circumstances and by whom would it be done?

Mr. BANDEEN: The I.C.C. in the United States uses the method in certain of their cases, and certain of the American practitioners use it. It is a term called "fully distributed costs". I do not want to introduce another term to the group, but fully distributed cost is the concept of taking all the undistributable costs and somehow to pro-rate them. It is almost an opposite in meaning, but people do this—they do distribute the cost.

Mr. BYRNE: People? That is—

Mr. BANDEEN: It has been done in the United States for some time. You come up with fully distributed cost, and it has been suggested—particularly in the United States until the last few years—that perhaps this was the best way of making rates. Even in the United States this has changed and they are, I think, pretty well on all fours with ourselves on rate-making policy. But there was a period in the history of railway regulation in the United States when it was thought you could make a railway whole by distributing all the overhead cost back to the individual shippers, or, rather, the individual shipment, and then make sure that the rate charged was equal or higher than that, and by this method you would cover the overhead cost. We just cannot do that in this competitive day. We have to set our rates on the competitive market, the competitive modes, the market conditions and so on. I think that even in the United States now, it has been acknowledged as being a false base.

Mr. BYRNE: Another question with regard to your method of arriving at the fixed cost. Can you give a precise percentage of these costs that are applicable to roadbed maintenance?

Mr. BANDEEN: A precise amount of the fixed cost?

Mr. BYRNE: Yes, the percentage?

Mr. BANDEEN: I would have to find that out for you.

Mr. BYRNE: It can be done?

Mr. BANDEEN: Yes, it can be done. I do not have it right here.

Mr. BYRNE: I would like to have that percentage in respect of your entire operating cost.

Mr. BANDEEN: The percentage of the road maintenance that is fixed?

Mr. BYRNE: Yes. That is, compared to your total operating costs.

Mr. BANDEEN: All right, fine; I am sure we can produce that.

Mr. BYRNE: Thank you.

The CHAIRMAN: Mr. Pascoe?

Mr. PASCOE: Mr. Chairman, my few questions are not directly related to cost accounting, but I guess I can bring them in right now. My questions pretty well deal with Mr. MacMillan's statement.

First I want to compliment Mr. MacMillan on his statement that his company's objective is the elimination of the rail passenger deficit, not the elimination of the rail passenger business. I certainly agree with that.

There has been some talk about the force of competition. I hope that the force of competition will induce the C.P.R. to follow the same policy.

However, what I really had in mind was in relation to branch lines and Mr. MacMillan's statement in that regard. The map of course, shows the branch lines that are protected up until 1975, but there are some unprotected lines, and Mr. MacMillan indicated that the C.N.R. was going to apply for possible abandonment of some of those lines. Now, would you be using the new costing figures or the new returns as related to the larger movements of grain in the last two or three years? Would these figures be taken into consideration with regard to these branch lines?

Mr. MACMILLAN: What I said in the statement was that we would be proceeding with the line-abandonment application covering those lines which are unprotected by the creation of this network, and that we would immediately bring up-to-date all of the material which had, in the last two or three years, gone out of current position. I think some of these applications are two and three years old. But we will be using current revenue figures and costs.

Mr. PASCOE: That is the point I was trying to bring out.

You also referred to the possible elimination of wasteful duplication of lines.

Mr. MACMILLAN: Yes.

Mr. PASCOE: If I could just refer to Page 25 of Bill C-231 and ask your opinion. It says in section 314 (d) (1), in dealing with abandonment:

...the Commission may recommend to railway companies the exchange of branch lines... or running rights over branch lines or other lines of railway, the connecting of branch lines thereof with other lines of the company or another company...

In other words, possible joint running rights. Would you think that is possible?

Mr. MACMILLAN: Yes, it is.

Mr. PASCOE: It is feasible?

Mr. MACMILLAN: It is quite practical.

Mr. PASCOE: It is quite practical?

Mr. MACMILLAN: Yes.

Mr. PASCOE: Has it been used at all anywhere?

Mr. MACMILLAN: Yes. We have many pieces of railway on which both Canadian National and Canadian Pacific operate. These are invariably under

what we call running rights agreements. In some instances they are owned by the Canadian National and the C.P.R. has the right to pass over them, and in other instances the reverse is true.

Mr. PASCOE: A short time ago there was some reference to the monopoly position on the line to Churchill.

Mr. MACMILLAN: Yes.

Mr. PASCOE: Is it possible for the C.P. to use that line at all?

Mr. MACMILLAN: Well, it is possible, but I do not think we would encourage them to do that.

Mr. PASCOE: Well, that is what I am trying to bring out.

Mr. MACMILLAN: The running rights agreements have been used historically as a means of avoiding duplicate expense. We have frequently examined our respective lines in a given territory and abandoned one or the other to cut the expense. The owner of the line which was abandoned has moved onto the line which is going to continue and has the joint right to cross it. We do have many, many places where this has been done.

Mr. PASCOE: Could I ask a very direct and specific question now? On this map of unprotected branch lines, the line running out from Moose Jaw, which is C.N., continues to Avonlea, but it will be cut off to Radville. Now, would it be possible for the C.N. to use the C.P.R. line down to Weyburn and the C.N. line over to Avonlea to provide some protection? There is a C.N. branch line from Weyburn over to Radville.

Mr. MACMILLAN: Yes; it is physically possible; but I think the objective of the map has been to try to put the two systems together in a manner which makes the greatest sense economically.

Mr. PASCOE: Well we ought to give Radville some railway protection if we can; otherwise they will not have any railway from Radville. I am speaking of the line from Weyburn to Radville now. That is a C.N. line. You think it could be worked out?

Mr. MACMILLAN: Oh, yes. The fact is that we can always physically accommodate both railways if it is desirable to do so.

Mr. PASCOE: Who would decide whether it was desirable?

Mr. MACMILLAN: Traditionally this has been done by agreement between the two railways.

Mr. PASCOE: If I may just change the subject for one or two questions. You refer to the over-all review of movement of grain from the field to the export points. You said something about a network of large elevators on the main lines. Is this getting back to the master grain handling plan that Mr. Gordon announced a few years ago?

● (12.20 p.m.)

Mr. MACMILLAN: Somewhat similar in concept. I think our real position is that enormous grain movements used to be the exception to the rule, but they have become the rule in the last few years. Our feeling is that this trend will

continue, and that we have to gear the ability of Canada to moving a much larger volume of grain.

In the last few years our facilities—and I am not talking only of the railway facilities, but rather the grain handling facilities—have been badly taxed to handle these heavy movements. Some way or other we have to find the means of increasing our capacity.

What I said here was that I think this problem is one requiring very extensive study. It is not beyond the realm of possibility that we will have to move a billion bushels at some point, and at the moment I do not think we can handle a billion bushels.

Mr. PASCOE: That brings me to my next point. You were talking about the improvement of terminal services. This indicates a need for speeding up the handling services. Have you any specific examples of delay in handling the services at terminals, and where this would be?

Mr. MACMILLAN: No, I do not think there is any more delay in any one terminal than in any other.

Mr. PASCOE: East or west?

Mr. MACMILLAN: No; that is right. The real point is that the export terminals are all old facilities and they were designed, for example, to handle one car at a time. The cars are taken in and dumped and then moved out. We can only visualize an ability to move a certain number of hundreds of cars per day through that type of facility. When we get to the point where Canada is exporting, say, a million bushels of grain, I do not think we can handle that amount of grain in that manner. I think we would have to go to some type of continuous unloading process, for example, where 50 cars can be dumped at one time.

Mr. PASCOE: Just one more question, Mr. Chairman.

The CHAIRMAN: There have been three brief, final questions, Mr. Pascoe.

Mr. PASCOE: You said that there is a very definite role for community shipments by pipe lines. What commodities would you envisage?

Mr. MACMILLAN: There is a possibility that the future may demonstrate how to handle grain by pipe line.

Mr. PASCOE: Are they trying it now?

Mr. MACMILLAN: No, they are not trying it now, because the technique of commodity pipe line is dependent, as I understand it, upon a liquid. They float the solid in a liquid, and one cannot float grain. We can float grain but then it would have to be all re-dried and regraded at the other end. That is one example. Another example could be potash. Another example could be wood chips; other examples could be coal, sand and gravel—these types of mass commodities; iron-ore.

Mr. HORNER (*Acadia*): Dr. Bandeen, in figuring out your costing, where does the cost of capital come into it?

Mr. BANDEEN: Do you mean where in variable costs is the unrelated cost? Well, some cost of capital appears almost in every one of those cost items. If you

think of it for a minute, if you are costing the movement of freight you will have the cost of the car in which the freight is moving and it is obviously variable with the number of these cars we have to have to handle and the amount of freight we have to move.

Therefore the cost of capital in the form of depreciation and the cost of money will be in the variable cost of freight on those parts of our assets which are variable with freight. But there are a tremendous number of assets on the railway which are not variable with anything. I am thinking of the basic investment in right-of-way, which be construed as being variable with the traffic going over it, because it is only variable if you give up the track. That type and the cost of capital will appear in the unrelated cost; but the cost of equipment would, by and large, appear in the service to which it was devoted.

Mr. HORNER (*Acadia*): In other words, in setting up the rates the cost of capital will only be accepted by that portion which is directly applicable to the particular movement of the goods.

Mr. BANDEEN: Yes; that is right. Sometimes the equipment—the locomotives—and sometimes fixed facilities; but normally it is not—

Mr. HORNER (*Acadia*): Four point seven per cent of the freight moves under class rates, or did, approximately, move under class rates. You mentioned—or some one did—that they are the high rates, more than likely.

Mr. BANDEEN: The maximum rates, yes.

Mr. HORNER (*Acadia*): Are they quite often on less than carload lots?

Mr. GARDINER: Yes; the carload rates are 4.7 per cent of the revenues, that is, carload traffic rates. Now, you have also a higher class rate when you have movements of l. c. l.; but the 4.7 is carload traffic.

Mr. HORNER (*Acadia*): The 150 per cent in non-competitive areas, in setting the rates—that is 150 per cent of the variable cost? Is that correct?

Mr. BANDEEN: Yes, above the variable cost.

Mr. HORNER (*Acadia*): One hundred and fifty per cent above the variable cost?

Mr. BANDEEN: Yes.

Mr. HORNER (*Acadia*): In other words—

Mr. BANDEEN: It is 250 per cent of the variable cost.

Mr. HORNER (*Acadia*): It is 250 per cent of the variable cost. In other words, the areas which are subject to non-competitive rates will be paying 250 per cent of what an area which is fortunate enough to have competition may be paying? Shall I put it that way?

Mr. BANDEEN: No; very seldom would the rate in a competitive area ever be as low as the variable cost. As a matter of fact, if it were below the variable cost it would be non-compensatory and we could not charge it. In a competitive area the rate can exceed the variable cost.

Mr. HORNER (*Acadia*): Oh, yes, I know it may well exceed variable cost. But then it may not, too, in the case of, say, specific agreed charges. I think quite often the—

Mr. BANDEEN: We would never get into a rate that did not exceed variable cost. It is not to our benefit to do it.

Mr. HORNER (*Acadia*): Not even in the case of agreed charges.

Mr. BANDEEN: No, sir.

Mr. HORNER (*Acadia*): You said, Dr. Bandeen—and just excuse me for a moment, because I want to get this straight first—you said, “Oh, yes, we would take on more shipments of goods just to cover the variable cost.”

Mr. BANDEEN: If they exceeded the variable cost, yes.

Mr. HORNER (*Acadia*): Let us suppose that they exceed it only by a very, very small margin. Would you still take it on?

Mr. BANDEEN: Well, I would prefer to refer this to our rate people, because they are the ones who make these decisions; but if we had the capacity to take it on, yes.

Mr. HORNER (*Acadia*): Then in a competitive area they could be very close to the variable cost?

Mr. GARDINER: May I answer this? If all depends on what you mean by “very close”.

Mr. HORNER (*Acadia*): Well, I would say, very, very, very close.

Mr. GARDINER: If you mean just a shade above variable cost we would not go out of our way to sign a special contract. It would not make sense. The agreed charges have quite an attractive component of contribution over and above the variable cost. Now, one thing we have to keep in mind is that back in this maximum rate scheme is the variable cost at 30,000 pounds; so that the key maximum rate would be, as you say, two and one-half times the variable cost of 30,000 pounds. But for any commodity that ships at heavier payload, negotiation would reduce that maximum rate.

Mr. HORNER (*Acadia*): I am well aware of what happens to commodities which are heavier than 30,000 pounds, but I am greatly concerned about the commodities which are lighter than 30,000 pounds. What happens to the rate then?

Mr. GARDINER: If it is moving strictly at 30,000 pounds?

Mr. HORNER (*Acadia*): No; less than 30,000 pounds.

● (12.30 p.m.)

Mr. GARDINER: Less than 30,000 pounds? There is a clause in here, Subsection 336(5)(b)(i), on Page 43, about three-quarters down the page, which says that for shipments under 30,000 pounds the shipper would have an option. He could ship a shipment billed at the 30,000 pounds. Suppose he has 24,000 pounds of hardtack, and he can ship 30,000 pounds at the maximum rate, which is one option. He compares that with the rate that the railway has offered him—because remember that the maximum rate would become applicable in practice only after the man had negotiated with the railways a rate with which he was satisfied—He compares 24,000 pounds at, let us say, \$3 with 30,000 pounds times the fixed rate that the Commission would have given him. Now, whichever figure is lower would be available to him. However, there would be instances when he would go back and say, “The rate the railways

negotiated with me is even better than that which the Commission can give me under this scheme."

Mr. HORNER (*Acadia*): This would depend on what the weight of the load was. If it was close to 30,000 pounds, yes, but if it was quite a bit under he would still be at the mercy of the railway.

Mr. GARDINER: May I say that, judging by the type of traffic that we do handle at those lightweights, be it empty tin cans, as one outstanding example, or furniture and so on, these can load only to 40,000 pounds. Now, you end up by saying that in the so-called competitive field, if we can load only 14,000 pounds of tin cans in a 40-foot box car, the truck can load at most 11,000 to 12,000 of the biggest cans available, and that man, then, even in the competitive field, is faced with a very high rate. I do not believe this scheme was aimed mainly at the movers of tin cans or furniture.

Mr. HORNER (*Acadia*): What about the piggy-back movement. Is that generally on agreed charges?

Mr. GARDINER: There are two types of piggy-back in practice in Canada. One is moving traffic in the piggy-back van on behalf of a public carrier. Is that the one you have in mind?

Mr. HORNER (*Acadia*): Yes.

Mr. GARDINER: In that instance there is no need for maximum rate control in that it is competition that really sets the rate. If the highway carrier between point A and point B can operate over the highway for his own cost of, say, 30 cents per mile, or 35 cents, depending on the operation, he simply cannot price to anyone at 42 cents. He will stay on the highway. Therefore the best we can do is to make it mutually attractive for that carrier to choose, by his own personal preference, to move his van over the rail at a few cents cheaper to himself; otherwise he is back on the road.

Mr. HORNER (*Acadia*): Yes; but you still did not answer my question. Do most of them move by agreed charges?

Mr. GARDINER: Yes; it is by agreed charges.

Mr. HORNER (*Acadia*): Section 336 says 150 per cent of the variable cost. Now, you said 150 per cent above the variable cost. The act does not say that. I am looking at page 42. Why do you interpret it as meaning 150 per cent above the variable cost?

Mr. BANDEEN: It says it will fix a rate equal to the variable cost of the carriage of goods and an amount equal to 150 per cent of the variable cost.

Mr. HORNER (*Acadia*): Of the variable cost?

Mr. BANDEEN: Yes; you sum the two. It is the variable cost plus 150 per cent of the variable cost.

Mr. HORNER (*Acadia*): Well, I will accept your interpretation.

I would like to ask Mr. Gordon a question. When you were speaking of competition earlier today, you dealt mostly with the competition of the other rail line. What are the feelings of railway management with regard to their own trucking service? Are they competing with their own trucking service in their bookkeeping and cost analysis and so on?

Mr. BANDEEN: Yes.

Mr. HORNER (*Acadia*): You are competing with your own trucking firm? Your trucking is not included in the figures you gave us?

Mr. GORDON: These do not show trucking, do they?

Mr. BANDEEN: No, these are for railroad.

The CHAIRMAN: Mr. Horner, I am going to have to call you to order, because I have given you more time than was allotted to you.

Mr. HORNER (*Acadia*): Are we going to adjourn?

The CHAIRMAN: I want to call one more person before we adjourn because she will not be able to be here and she has never had the opportunity to question—unless you—

Mr. HORNER (*Acadia*): No, I am agreeable.

The CHAIRMAN: Mrs. Rideout.

Mr. ROCK: On a point of order—which has nothing to do with you, Mrs. Rideout—if I could just ask a question of the Chairman: We are now just talking about the disclosure of variable costs? Is that right Mr. Chairman? We will be going through the bill clause by clause later on and discussing the recommendations to amend the bill?

The CHAIRMAN: We are discussing the whole brief, Mr. Rock. You may ask any questions whatsoever on the brief which has been presented and on the bill.

Mr. ROCK: It seems that no questions are being asked in any detail with regard to the recommendations. I am more interested in that part of it, and everyone seems to be questioning just the disclosure of variable cost.

The CHAIRMAN: You can ask any question on any part of the brief, or any part of the bill. Mrs. Rideout?

Mrs. RIDEOUT: Mr. Chairman, I would like—

The CHAIRMAN: Excuse me, Mrs. Rideout. I intend to adjourn immediately after Mrs. Rideout is finished so that we will come back here after orders of the day at 3.30.

The document that was distributed to you is the summary of eastern Canadian abandonment proposals as of August 23rd, 1966. This has been provided by the Department of Transport as a result of questions which were asked with regard to which lines were to be abandoned in eastern Canada. Mrs. Rideout?

Mrs. RIDEOUT: I would like to direct my question to you, Mr. Gordon. You have always been very kind and generous in your responses to my questions. It concerns the summary of recommendations with respect to the provisions of Bill C-231. It is on page 6 where you state that the Canadian National is currently re-organizing its less-than-carload express service into one consolidated service known as express freight. I have been very well aware of this change that you are bringing into effect in the Maritime area.

Now, I am concerned, and I will tell you why. You say that unless less-than-carload traffic is removed from the effective Section 335, or, in other

words, unless less-than-carload traffic is removed from the present subsidy, this is going to deprive the Atlantic area of this new improved service. I would expect that your reason for wanting to have it removed would be in the interests of the efficiency of this new service. My concern is that if you remove this less-than-carload from the effect of the subsidy it is going to effect an increase in expense to the people who enjoy the service you provide. I just cannot understand your thinking. If this is an improved service then it must be an improved service to the person who is going to be using it. If it is going to cost more money it certainly is not an improvement.

Mr. GORDON: We are pointing out in the brief what we think is an inconsistency in the bill. The language of the bill is such that there is an inconsistency there. We point out that if Section 335 is not amended so as to remove the reference to less-than-carload freight rates, we cannot get on with the job of amalgamating the less-than-carload with our express service.

Mrs. RIDEOUT: This is what I cannot understand. Why can you not?

Mr. GORDON: Well, it seems—

Mrs. RIDEOUT: I am not being negative, believe me; I just cannot understand why.

Mr. GORDON: No, I quite understand. It is just that I do not understand why you do not understand. Perhaps Mr. MacMillan can get in between us here.

Mr. MACMILLAN: Mrs. Rideout, if I may take the question from there, one of the problems which exists in the marrying of express and less-than-carload freight traffic arises by virtue of the existence of two quite different tariffs, one which is freight tariff and the other which is an express tariff, and our objectives are to cancel both these tariffs and have a new tariff which will reflect the combined service; and this will be an express freight tariff.

You will recall, of course, that in the last couple of years we have been physically putting together the l.c.l. freight movement and the express movement. Our objectives have been to go on with this tariff change in the foreseeable future. The bill freezes all freight tariffs in the maritimes for a two year period. That broad prohibition against change will prevent our putting the two tariffs together in the maritimes. The rest of Canada will have one tariff for packaged traffic but you would not. What we are saying in our brief is that the exemption should be extended to the l.c.l. freight tariffs so we can put it together; so we can go on with the services.

● (12.40 p.m.)

Mrs. RIDEOUT: I think the maritime members will agree with me that the lifting of any of these subsidies that we have for this area should be prevented because the precedent sometimes does not—

Mr. MACMILLAN: Oh, no, it has nothing to do with the Maritime Freight Rates Act; the subsidies would continue to apply. It is just the technical requirements that we cancel the traditional l.c.l. tariff and substitute for it the new combined tariff. But the bill did not contemplate that at all.

Mrs. RIDEOUT: Thank you, Mr. MacMillan, I think I understand now.

The CHAIRMAN: We will adjourn until after Orders of the Day or 3.30 whichever comes sooner.

Mr. OLSON: It would appear that we are going to have a procedural problem with some extraordinary business today. Do you still intend to recall the meeting at 3.30 p.m.?

The CHAIRMAN: Yes, we will have the meeting today at 3.30. The witnesses are here, they have been here since last evening and they are prepared to be here this afternoon and tonight. I think it would be most unfair to the witnesses if we do not proceed at 3.30 unless there is a real exceptional—

Mr. OLSON: Well, that is what I am talking about—a real exceptional one.

The CHAIRMAN: Well, I think we should be here at 3.30 and then determine when we are here what will happen. But, I think it would be unfair to the witnesses not to resume our meeting at 3.30.

AFTERNOON SITTING

THURSDAY, October 13, 1966.

The CHAIRMAN: Before we commence, there are just a few matters for the attention of the committee, namely the discussion brought up this morning by Mr. Howe as to the costing expert. In informal discussions that were held, we have come up with the name of a learned gentleman which seems satisfactory to all concerned, Dr. Donald Armstrong, former Dean of Commerce and Business Administration at McGill University, who was a special consultant to the MacPherson Royal Commission on the matter of cost. We have been trying to come up with another name, but after discussion, we learned that Dr. Armstrong would be available to us for three days a week and the steering committee has pretty well approved of this, if it meets with the satisfaction of all the Committee. Dr. Armstrong is originally from Lethbridge, Alberta, and has been with McGill University as Dean of Commerce and Business Administration and is available to us. He is perhaps the only one I can think of as completely independent and has no ties to anyone and would act as a consultant to us. If the Committee will approve, I would accept a motion for the clerk to make inquiries to obtain his services and to see that he retained by the Committee and on a per diem rate. May I have the motion. Moved by Mr. Allmand, seconded by Mr. Fawcett. All those in favour.

Mr. OLSON: I would like to know what this cost analysis is going to do for us if we are not getting the costs from the railroads. If we are not going to have any of the variable costs that go into the formula for maximum rate control, what useful purpose is he going to serve? Every single meeting that we have had since the railway bill has been referred to it and at every discussion that has taken place in the House of Commons since this bill has been out and we have had a knowledge of what is in the maximum rate formula, namely section 336, there has been a consistent resistance to provide any Members of the House of Commons, or of this Committee, with the variable costs that are required. I would just like to have those members who are moving the motion to give us an indication of what this man is going to do. He will be here with his hands tied if he has not any figures.

Mr. ROCK: Well, Mr. Olson was not here when we had the college professor.

Mr. OLSON: Oh yes, I was here when we had this specialist and I listened, very attentively, too.

The CHAIRMAN: Order. The request has come consistently from members of this Committee and therefore I call on the members to vote for it or to vote against the motion.

Mr. OLSON: Well, that is right, but I just wanted to advance my argument. My point is it is an exercise in futility if he has nothing to go by.

The CHAIRMAN: Your point has been made, Mr. Olson. Any other comments on it.

Mr. HORNER (*Acadia*): I agree with Mr. Olson. This morning we had a set of figures given to us and we were told one could prorate the unrelated costs, if one wanted to, but one would be doing it in error. It could be done this way or it could be done that way, but I agree 100 percent with Mr. Olson. We have evidence that there was a hundred thousand different costs. Now, why could the Committee not have some of these cost studies made. Mr. Gordon said "no, this would ruin us competitively". Well, we know that there are areas in Canada where there is no competition.

The CHAIRMAN: That is not the question before us, Mr. Horner.

Mr. HORNER (*Acadia*): We are dealing with this question before the floor. There are areas in Canada where there is no competition, so why could we not have some costing study given to us concerning shipment of goods in areas where there is no competition. Then there are the cost analysts that the Committee wishes to obtain; they could be of use to us, but any Grade 7 student can go over those figures and either agree with them or reject them or deal with them any way he likes. I saw multiplication there; it did not jibe to me, you multiply 143 by six and get eight hundred and something which did not look right to me, but a few dollars that do not really matter one way or the other.

The CHAIRMAN: Order. You have had twice around where others have had once and some have had none yet, so I think you have had your share.

Mr. HORNER (*Acadia*): If they want to speak there is nothing stopping them.

The CHAIRMAN: Well, would you just get to the point of whether this man should be hired or not.

Mr. HORNER: I think before we rule whether or not we should have a test cost analysis, we should have some costing figures presented to the Committee, or we should be told that cost figures will be presented to the Committee either by the CNR or by the CPR. It is more than likely that the government will accept the CPR costing studies because they seem to be the yardstick on which railways are judged in this country; they are a private concern and being a private concern they are considered the most efficient.

The CHAIRMAN: May I bring to the attention of the Committee that it is the intention—it was the steering committee's intention earlier—to bring the CNR back to this Committee. The CPR will be coming back, and I would think that after the questioning and the information has been laid before this Committee as to what costs they are putting before the Committee, we will be in a position to act, after the other briefs have been heard. It is the intention to call back

both the CNR and the CPR for a clause by clause study of the bill. During that period of time we shall be able to have some assistance from whatever cost analyst or consulting expert this Committee decides to retain if it does so decide at that time that there would be sufficient information for him to work with. If not, the Committee can direct him to make whatever studies he wishes to make to obtain information.

Mr. ROCK: The fact is that we are not even giving this cost analyst a chance to even question in the first place. The amount of figures that the CNR is providing us may be sufficient for him to say that it is enough. I am not sure myself, but I do not think it is right to say to the officials of CNR that you do not accept their figures, that their figures may be wrong and things like that. I do not think this is right for us to do this.

Mr. ALLMAND: Costing procedures are one of the most important aspects of this bill, and I do not think it is just a matter of figures but it is costing procedures, and so forth. I think there are a lot of things there that may be simple to Mr. Horner but they are not so simple to me, because I am not that familiar with accounting procedures, and I think we owe it to the people of Canada whom we are working for on this committee to do the best job possible with this bill, and I think we should hire expert services.

The CHAIRMAN: Any other comments.

Mr. FAWCETT: Mr. Chairman, my motion was based on the fact that I believed there was a motion previously before us that we would employ competent cost accountants.

The CHAIRMAN: Mr. Bell put that forward at the first meeting at which Mr. Horner unfortunately, was not able to be present.

Mr. FAWCETT: While I agree to a certain extent with Mr. Olson, I think we are going to have conflicting statements. We are going to have representations not just from railroads, but from other modes of transportation. I think we will need someone who is competent to analyse some of these conflicting statements and perhaps come up with something a little more stable than we could arrive at without any help at all.

Mr. STAFFORD: What are some of these conflicting statements we have heard already.

The CHAIRMAN: Speak to the Chair, Mr. Stafford, if you have anything on the matter.

Mr. STAFFORD: That is what I am trying to find out. We hear a lot of talk here. Personally I learn far more when I am listening to Mr. Gordon or the other witnesses up here, but what are these conflicting statements? Why do they not say what they are.

Mr. FAWCETT: I do not mean from Mr. Gordon or from these gentlemen that are at the table at all. I am talking of cost experts.

The CHAIRMAN: Mr. Fawcett is referring to cost experts, Mr. Stafford.

Mr. FAWCETT: I am speaking of representatives from other types of transportation that maybe will be taking issue with the railway or perhaps the railways taking issue with them. This is the reason I think we need someone that can go into some of these matters a little more closely.

The CHAIRMAN: I think the matter has been discussed. Are you ready for the question.

All those in favour of the motion, please raise your hand.

Motion agreed to.

Mr. OLSON: Now give them something to work with.

The CHAIRMAN: I also wish to bring to the attention of the Committee that there was distributed this morning a summary of the Eastern Canadian abandonment proposals as of August 23, 1966, as prepared by the Transportation Policy Research Branch of the Department of Transport. I would ask for a motion that this be printed as an appendix to our Minutes of Proceedings and Evidence. Moved by Mr. Howe, seconded by Mr. Rock.

Motion agreed to.

We will proceed then with the questioning by Mr. Fawcett.

● (4.05 p.m.)

Mr. FAWCETT: Mr. Chairman, to start this off could I ask this question: These are the rail lines on which progress is going to be made with respect to abandonment. You do not include any of the other lines which have been delayed; these are just the lines for which application has been made and it is the intention to go ahead with abandoning services on them.

Mr. MACMILLAN: None of these lines are embraced on that map, the western network.

Mr. FAWCETT: No; I see that there is nothing on the map that refers to the west itself.

Mr. MacMillan I am going to ask you this question. On page 5 of the summary, I see that you have taken exception to other modes of transport filing complaints. I had better get the right page. Subsection IV says a person interested may appeal an order, rule or direction of a committee to the commission itself and also an operator of another mode of transport may appeal to—

The CHAIRMAN: The clause that you are reading is in the summary or in the brief?

Mr. FAWCETT: No, it is the summary of the brief, page 5 of the summary of the brief we received this morning.

The CHAIRMAN: Thank you.

Mr. FAWCETT: I would like to ask Mr. MacMillan if he could enlarge on what the main objection to this is.

Mr. MACMILLAN: Well, Mr. Chairman, Mr. Fawcett, the subject position in this matter is simply that in an original proceeding conceivably the railway would be successful. Now in that eventuality the appeal section grants to a person interested or an operator of another mode of transport the right to appeal the order. Our position is that we recognize that a person interested is definitely someone who ought to have the right of appeal. But we seriously question the propriety of a competing form of transportation—not being a person interested in it—having the right to appeal an order settling the state of affairs between a segment of industry and the railway. The basic reason is that one but, in addition to it there is an objectionable clause which requires the

execution of the original order to be stayed or postponed during the entire period between the granting of the order and the disposition of the appeal; in other words, the filing of the secondary complaint. We visualize circumstances in which by virtue of filing of a complaint the whole matter be in a state of limbo for a very considerable period of time. It might go for many months; conceivably it could go for a couple of years. In the meantime the remedy which the original board found we were entitled to receive would not be available to us.

Mr. FAWCETT: A competing mode of transport could use this as a means of delaying, if nothing else.

Mr. MACMILLAN: They could harass us I think.

Mr. FAWCETT: Pardon.

Mr. MACMILLAN: They could harass us by filing the complaint.

Mr. FAWCETT: Yes, and quite possibly tie something up for a matter of months that should be settled.

Mr. MACMILLAN: Yes, or even years.

Mr. FAWCETT: Yes. I only have one more question. I would like to know what percentage of the rail transportation handled now comes under the category of competitive business. This is eliminating grain handled under the Crowsnest pass rates, maritime freight rates—

Mr. MACMILLAN: About 27 per cent of our freight revenue dollars flow from competitive rates.

Mr. FAWCETT: This is the only portion of the railway transport business that you could actually engage competitively in? Is that correct or could you go beyond that 27 per cent.

Mr. MACMILLAN: In addition to that there are the agreed charges which are about 25 per cent. I think what you are getting to is the reverse of it really, and that is the traffic which moves on the class rates which is about five per cent.

Mr. FAWCETT: Well, what I was concerned with was just how large an area you would have to compete in, considering all these other elements, maritime freight rates, the Crowsnest pass rates and so on—

Mr. MACMILLAN: Well, the statutory rate would amount to about 13 per cent in dollars of our freight traffic. The agreed charges amount to about 25 per cent; the freight competitive rates about 27 per cent and then there is another category of commodity rates—commodity rates which are non-competitive—these are all below the maximum rates which are the class rates. They amount to about 30 per cent.

Mr. FAWCETT: I am going to pass, Mr. Chairman. I would like to come back later.

Mr. MACEWAN: Mr. Chairman, I wanted to ask Mr. MacMillan, following up the questions by Mrs. Rideout, a question relating to page 6 of the summary of recommendations regarding (B), the exemption of maritime freight rates.

I would like to ask Mr. MacMillan his opinion. Does he believe, or is it anticipated that, as a result of the consolidation of l.c.l. and express services, the rates after consolidation would be higher or lower than the present express and l.c.l. rates.

Mr. MACMILLAN: Well, it is very difficult to be completely categorical in the answer to this question. The fact of the matter is that the new tariff will bring about what we regard as rationalization of these two old tariffs. There will be some rates which will go up; there will be some rates which will go down. This traffic is all, of course, highly competitive, traffic for which the highway operator will compete. We are also in competition here with the Post Office Department in the parcel post traffic, so that the objective is not to increase all the rates, or we would lose the gross volume of traffic but rather to put the rates on a basis which will do a better job for us all, not only the railways but for the public and which will derive to us the traffic which we can handle best of all.

Now, if you were to wrap that glass and put it in a box and ship it, that bit of traffic is best to go by mail, because they can handle it cheaper and just as expeditiously as we can. I would anticipate that the charges for the movement of the glass in our tariff would go up because we would like to divert traffic of that kind to the parcel post.

Mr. MACEWAN: Well, then, of course, following this, if the charges went up, the exception in the act to the benefit of the Atlantic provinces—maritime provinces—for the two years would be wiped out.

Mr. MACMILLAN: Well, I think you misconstrued my answer. Certainly, in the gross it will not go up. What I did say was that there would be individual items where I expect it would go up but the majority of the items would either stay where they are or go down, because, as I said, we are trying to bring about some rationalization of our traffic and improve the service. It is all directed to improving the service.

● (4.15 p.m.)

Mr. MACEWAN: Yes. I realize and I know what is going on in my own area for the consolidation but if they did go up, of course, then the people using l.c.l. and express services in that area will not benefit by the two year freeze which will prevail under this act.

Mr. MACMILLAN: That is correct. In any isolated rate which went up they would lose the benefit of the exemption. But you must remember that in many instances in all our tariffs today we really have paper tariffs where we have a tariff to move certain types of traffic but the traffic does not move under it, and it takes an alternate form of competition. Our objective in this new consolidated tariff is to move traffic. That is what it is basically intended to do. What we are really saying in this section of the brief is that we would like the opportunity of doing in the maritimes exactly the same as we are going to do elsewhere in Canada where we do not have that freeze.

Mr. MACEWAN: In the last paragraph you state there are freight rates in the select territory which are at a level close to today's variable cost. Could you give any idea of what traffic might be involved there and what percentage those freight rates are which are at a level close to the cost in that area.

Mr. MACMILLAN: May I ask Mr. Gardiner if he would answer that.

Mr. GARDINER: Offhand I do not know. I would have to check on that.

Mr. MACEWAN: That is all right. And, of course, the same thing applies there if section 335 is amended to make it subject to section 334, then the

two-year freeze or the benefit of the study of the Atlantic rates will not be available to shippers in the Atlantic areas.

Mr. GARDINER: Yes, but then, of course, we would remove one of the inconsistencies in the legislation. Throughout the legislation at several points the railways are charged with the obligation to exact as minimum rates, rates which are compensatory. What we are saying here is that when we adjust some of those Maritime rates, they no longer will be compensatory, therefore, we are in default in one section of the act but prevented from curing our default by another section.

Mr. MACEWAN: That is true. I think that is all I have now, Mr. Chairman. Thank you.

Mr. ROCK: Mr. Chairman, Mr. Gordon, I have the intention to ask this Committee later on to make some amendments to clause 78, concerning the grade crossing fund, in order that the new Canadian Transport Commission could, when it is felt necessary for safety purposes, initiate plans and to order the execution of works in order to build new overpasses or underpasses at crossings which have heavy pedestrian and vehicular traffic, in instances where municipalities or the provincial highways departments do not take the initial step to separate the grade.

I would like to ask this Committee later on to give the power to this new commission to be able to force the issue and to initiate the project with the co-operation of the railway companies at times. I would like to know if you have any comments in this regard.

Mr. GORDON: I am not quite clear what you had in mind. Did you have in mind that you would suggest that the commission have authority to initiate action, and at the same time impose a percentage of cost on the municipalities, or the provinces or railways, as the case may be?

Mr. ROCK: That is right.

Mr. GORDON: I do not know what to say about that. I do not know if constitutionally you can do it. Mr. MacDougall, from a standpoint of law, could this commission be given authority to impose a cost on a municipality without their consent?

Mr. MACDOUGALL: There might be some difficulty on that, Mr. Chairman and Mr. Gordon. But the present rules under which the board works, if the result really comes to that end, the board today makes a payment out of the grade crossing fund toward the cost of protective devices and then it apportions the remaining share among the other parties. It is allowed to do that by the present Railway Act.

There is today apportioning costs against municipalities in accordance with the present terms of the Railway Act, and against the railway companies. A great deal of this is done on a formula basis because of the experience they have had over the years, but I do not know, Mr. Rock, that it would add very much to their present legislative authority to do that, unless you were suggesting some change in the contributions which the board might make out of general public funds toward the cost of these devices. They presently have the power to investigate any situation in Canada at a railway level crossing and to order the protection devices that they consider necessary and in the public interest at that crossing.

Mr. ROCK: Without this, the initial request may be made by the municipal authorities or the highways department?

Mr. MACMILLAN: I think your question, Mr. Rock, really was, and I do not think Mr. MacDougall understood it that way, that you had in contemplation urging an amendment charging the new commission with a greater degree of responsibility to originate grade separation. In the historical pattern they have not done that. They have, in most instances, waited for the application to be made by the municipality or by a province in certain cases, and then they have done their investigation. From our point of view, we would have no objections to such a procedure.

Mr. ROCK: I am concerned, as you all know, because of the tragic accident at Dorion, and the day following that there was one at Sources Road between the boundary lines of Dorval and Pointe Claire. There has been no action taken, or possibly there has been a request, and this is the other part of the question I want to come to. Do you know if there was any request by the municipality or by the roads department of the Province of Quebec to initiate the construction of an underpass or overpass at Dorion and also the same question in regard to Sources Road?

Mr. MACMILLAN: That is really not within our knowledge, Mr. Rock. The board would know that.

Mr. ROCK: But you would know if such a request had been made. You would have got notice of it as a railway.

Mr. MACMILLAN: Likely, yes.

Mr. GORDON: But I think the first point that you are making, Mr. Rock, is still in play and I do not think we can help you on that. I think you have to get legal advice as to whether or not the commission could properly impose a charge on a municipality or require them to pay so much money. That is a legal point which I think you would have to get advice on from the Department of Justice. I do not think it would be appropriate for us to express an opinion on it.

Mr. ROCK: You may be happy if it works.

Let me first of all take this opportunity to congratulate you and your officials for the initiative and action you took last summer in the decision made to purchase this fast Train. This is the first time this has happened in Canada for many years where a railway company has gone ahead into the far-off future like that. I believe that this amendment, that I hope I will be allowed to bring in, would help in such cases because in having fast trains on the railway tracks of today you may want to see more underpasses or overpasses on that line. In this case, I believe if the board would have this power it would be easier for you to construct your lines wherever you have to in a proper fashion where there would be no level crossings.

Mr. GORDON: I would think that the Board of Transport officials would have views on that. If you are thinking of suggesting an amendment you ought to have a talk with them because you will find it is much more complicated than just a simple question.

Mr. ROCK: In your summary brief, on page 7, you are recommending that the control of commuter service rates should be eliminated, more or less; that

competition should regulate rates, wherever it exists, in competitive inter-city passenger service. I am rather suspicious of this amendment. Mr. Gordon, because of the statement you made a few years ago to this committee, and probably outside the committee, in regard to the North Shore commuter service, that you would have liked to get rid of it for a dollar. This may have just simply been talk, more or less, but it seems that the situation was that you did not care for that service too much—it was not a paying service—and that all of a sudden, because of other factors involved, and for the future development of your railway system, you felt that you should retain that line. Yet if we were to adopt the amendment that you are recommending here I would be rather suspicious that the intention would still be to raise the price on that commuter service until you put it out of existence.

● (4.25 p.m.)

Mr. GORDON: No; because all we are suggesting here is that we should be entitled, at least, to have the same principle applied in regard to this type of service as in everything else in the bill.

All through the bill it is emphasized, again and again, that our rates for freight and our rates for passengers should be on a compensatory basis; that we should, at least, break even; that we should not be in a position that the railway itself is subsidizing the service. In other sections throughout the bill it says very specifically that if there is an uneconomic service to be operated in the public interest then the railways are to be compensated for it. It was one exception in all that. It says in the bill that in the case of the commuter service it is exempted from that principle, and we do not understand why.

Mr. ROCK: Well, Mr. Gordon, I have stated what I want to state and now I will say something else to you.

When I questioned the president of the C.P.R. last summer on the commuter service in the Lakeshore area he stated that that is a line which is making a profit. I do not feel that if the C.P.R. in the Lakeshore area are making a profit, and they are satisfied with the operations there, they can say that this is a line that is losing money, because the trains are packed; the people are packed like cattle into the trains.

Mr. GORDON: Let the commission decide the facts. We will give them the facts. All we are saying is that it should not be in the bill that in the case of commuter service you remove this principle that it should be compensatory.

We are perfectly prepared to go before the commission at any time and give them the facts and let them decide; and that is all we have ever done; it is all we have ever said.

The bill suggests here—at least the way we read it—that, in the case of every other service provided by the railway, the price charged should be on a compensatory basis or, failing that, that it should be paid out of the public purse on some basis. But they depart from that principle with regard to the commuter service, and we simply say that that is wrong; we think it should be consistent.

We are perfectly willing to have you amend the bill in such a way that we are required, of course, to go before the commission and state the facts and figures. We are not going to be allowed, even if we tried—and we would not try, but people sometimes do not believe our professions of good faith—but even if we tried we would not get away with it. I am quite willing to have it on

that basis but I am not willing to have it—at least I am suggesting to you that it should not be—on the basis that we are required to continue a losing commuter service on the basis that we have to pay the loss; and that affects our operations in respect of other fields as well.

Mr. ROCK: I have just one more question and then I will come back later. Could you tell the committee whether the North Shore commuter service which I mentioned is losing money or not?

Mr. MACMILLAN: If I may, I would like to answer that question, primarily because of the statements made about the C.P.R.'s Lakeshore service. I would not like you to think that we were any less efficient than the C.P.R. The fact is that if you take it on a direct basis, we make money on the tunnel service, too—on the commuter service; that is the service to which you referred.

The real problem with regard to the commuter business lies in the fact that a railway can use its physical plant just so long and then it wears out and has to be replenished; it has to be replaced. The direct returns are not, in the present environment, sufficient to enable us to service any capital which is required in substantial amounts to re-equip the line.

I think you will find that is identically the position of the C.P.R. I would not know, and I am not professing to speak for them, but so far as the daily variable expense and the receipts are concerned, the receipts are more than our expenditures—or have been; I have not looked in the last month or so.

Mr. ROCK: Thank you very much. I would like to add just one comment and then I am finished.

We are also very much of the opinion that if we are required to operate a commuter service—and that is the situation where we are now in the business—we want to be in a position to provide a decent commuter service. We do not want to be forced by reason of losses to keep on using old equipment and have no means from an economic basis, of providing the standard of service on which we like to pride ourselves; and unless we can get a rate of return that will enable us to plan for the replenishing of the equipment, as Mr. MacMillan said, we will not be able to keep that service at the standard we would wish.

Mr. ROCK: I understand.

The CHAIRMAN: Before I continue, I did pass by Mr. Sherman a while ago and I think I will come back to him if he is prepared.

Mr. SHERMAN: No, I would just as soon that you proceed, Mr. Chairman, for the time being. Thank you.

The CHAIRMAN: Mr. Howe is not here. I will call on Mr. Horner. No; I am sorry. Mr. Olson.

Mr. OLSON: Mr. Chairman, this morning I had only started on this matter of the variable costs that are to be applied on the maximum rate formula. I would like to ask Mr. Gordon, or whoever from the C.N.R. wishes to answer, if they are of the opinion that a captive shipper, as defined in Section 336, would essentially be only those shippers who are now paying class rates. Is that your opinion of what the application of this section would be?

Mr. MACDOUGALL: As you know, there is a definition in the bill of a captive shipper. At some stage the commission, presumably, will have to rule on

applications by people who request to be identified as a captive shipper. I cannot really say how they would rule in each individual case.

That is one of the difficulties that you have and that we have in endeavouring to assess the effect of the new maximum rate control scheme. That we cannot, in the first place, identify accurately every one who is going to be a captive; secondly, we cannot identify which of those captives will actually want to apply for a captive rate. Therefore, it is difficult to put your hand on the man who is really going to be affected.

However, I would say this, that the present maximum rates are the class rates, and through our study of the same problem that you are interested in we can see that most of the captives who are likely, in our view, to come forward and say "I am a captive" are in the class rate group.

Now, there is the other large group—the non-competitive commodity rates group. There is a large group of people there, as Mr. MacMillan has said. From our viewpoint, we cannot visualize how many of those could possibly consider that they are captive under the rule in the bill, or how they could consider that they are the person who is requiring some form of protection by a captive rate. Take, for instance, the shipper of potash. He may be captive in a physical sense—someone may say he is—but certainly his ability to have his rates set in the non-competitive group—much below the class rates—is directed by the forces he can bring to bear at the bargaining table, which may not be tough competition, but there are other forces well known to everybody.

An hon. MEMBER: Which other ones?

An hon. MEMBER: Are you talking about the past now?

Mr. MACDOUGALL: No; today. I am talking about today. He does not pay the class rate today. Many of the people in the non-competitive commodity area are paying very much below the class rates. Some are paying below the level of competitive rates for the simple reason that they have forces that they can bring to the bargaining table, which drive the normal class rates away down into a very low level in the non-competitive field.

An hon. MEMBER: What are the forces?

The CHAIRMAN: Order, please.

Mr. MACDOUGALL: For instance, the man who is going to produce a million tons of some form of traffic—such as the potash man—says: "If you do not give me a good rate in Canada I will produce more from my American mines and I will ship it from there. If you want to develop this product in Canada you have to give me a low rate. I will ship by unit trains for very large quantities. I have to have a very low rate to do this." It is not competitive with trucks but he has forces he can bring to the bargaining table which will enable him to get a rate much below the class rate level.

We do not look on that man as a captive, or somebody who needs protection against bearing too great a share of the overhead in rates. The purpose of the captive-shipper scheme is to ensure that those people who are really captive are not going to be imposed upon by having an excess portion of overhead placed on their shoulders. This man is not in that position, therefore there is a large group in the non-competitive commodity rate area whom we

cannot visualize coming forward as captives, or whom this scheme was ever designed to protect. There may be some of them in there but I would say, generally, in answer to your question, Mr. Olson, that the majority of them would be in the class rate group.

Mr. OLSON: Accepting, just tentatively, your contention that there are other forces that can be brought to bear in negotiating a rate with the railway for a company that is intending to set up an operation, do you contend that these same kind of forces are applicable where an establishment is now in place?

Mr. MACDOUGALL: Very definitely, sir. We repeatedly have emissaries from industries of that kind, who are coming every so often seeking different rate concessions, or adjustments in rates, to meet the problems and difficulties which they have to face from day to day and year to year in their own business. The first thing they do when they are looking for some assistance is to come to us to see if they can chip a little off the rate. This is going on all the time with existing industries as well as new ones. It is very much in our interest to keep those people in business, if we can, at a rate which returns a new dollar for an old dollar.

● (4.35 p.m.)

Mr. GORDON: If I could just make one comment. From what I have been able to establish from my investigation the concern about the captive shipper has been tremendously exaggerated—so exaggerated—that it is difficult for me to find a true captive shipper. He does not exist. He is a figment of the imagination, with some exceptions. This concern was not expressed in any way at all, but in the course of forming the bill the government advisers decided that they would meet this anxiety, or apprehension, which had been voiced, by constructing a formula. It is not the railway's formula. We do not like it; and, having seen it, we prefer no formula. We think that as good businessmen we can handle this far better ourselves if left to our own devices. However, in the interests of meeting certain shades of public opinion factors and genuine apprehension—because this is a new development in the railway business—this formula has been devised. Our position in this matter, as a railway, is that, since the formula is there, we have examined it, we have tested it by specific examples where we could find it and we find that it is workable. We think it is fair; we believe that we can live with it; and we also recognize that, after a period of experience with it, there will be an opportunity for review. This is one of the cases where, as I mentioned in my introductory remarks, we have to live with experience; and there is provision for review. I do say in all sincerity that the concern about the captive shipper is very much exaggerated.

Mr. OLSON: Let us take a few examples, Mr. Gordon. The farm machinery that is shipped from Toronto to Calgary or from Hamilton to Calgary, the shipping of steel sheets from Hamilton to Edmonton and potash, which was mentioned, from Esterhazy to Vancouver; for another example, nickel concentrates from Thompson, Manitoba to Fort Saskatchewan in Alberta; and there are others too. Do you regard your competition in this field to be another railroad or highway transport, or is there any effective competition to the railway handling this kind of commodity?

Mr. GORDON: Well, it is a combination of all the forces of the marketplace really. We are not thinking specifically of another railroad. Generally speaking, the forces that arrive at a rate between the railways are pretty much the same.

Mr. OLSON: In the case of these variable costs which are the basis of a maximum rate control, in the cases which I mentioned who, or what made of transport, is going to benefit from having that information to the detriment of your competitive position?

Mr. GORDON: Any possible competitor.

Mr. OLSON: Who?

Mr. GORDON: I do not know.

Mr. OLSON: Another railroad, or—

Mr. GORDON: I say we do not know, but we know enough about the marketplace to know that it will develop. As I said to you this morning, if we provide the information, you must not assume, even if you find this theoretical captive shipper—which I find difficulty in locating—but if you find him in a particular place, on a particular run, that does not mean that he does not have competition somewhere else right on our main line. The same set of circumstances in regard to his shipment could apply to a competitor who is in the competitive area. The minute we produce our costs in regard to this theoretical captive shipper the other part of the industry is right in there on us. I do not know what competition will develop.

Mr. OLSON: Forgetting the theory of it and taking it to the practical point of view, in the examples that I have mentioned the only possible or practical competition which could make any real use of these variable cost factors would be another railway. Yet under section 337 of this act it says that the railway companies shall exchange such information with respect to cost as may be required under this act; and they are going to have it in any case.

Mr. GORDON: No, it is the market competition—

Mr. OLSON: Why can not the Committee have it, so we can see what the effect of this application is going to be?

Mr. GORDON: Well, perhaps Mr. MacDougall can answer that, because he is dealing with the market competition. It is not the other railway that we are interested in.

Mr. MACDOUGALL: Perhaps I could give you an illustration of why I think it is important that these costs not be revealed. If I could just digress for a moment I will relate it to a simile. During the war I was an intelligence officer. The purpose of my work was to find out something of what the Germans were doing in certain circumstances. The way I found this out was to piece together little pieces of information—a little bit here and a little bit there—and, over a considerable period of time, to work out a pattern. That was how conclusions were drawn from various facts—from various little bits and pieces of information. It is exactly the same way that it is done in industry. Industries have intelligence services, just as soldiers have. They take all the individual little bits and pieces that they get, of this type you are speaking of, which do not appear to affect anyone at all, because there is no trucker in the area, but they are put together and other pieces are put together—all the various little pieces can be put into the picture—and it does not take too much of that to enable an intelligent analyst to make pretty accurate calculations on what the costs of the railways are in the various areas. Once he knows the costs, whether he is a

trucker, a barge line operator, or another railroad, he can judge what his competitive action will be, because he knows what our cost is of handling certain commodities in certain circumstances for a mile, or per ton.

That is the thing we fear, the more we give out in the whole area of our costing. It is not the individual point—it might not affect us at all at one point—but it is these various little bits and pieces that are put together. We know, from our own experience, because we have experienced men in this field, that they can put these together very quickly and very easily, and that they can disclose the whole basic pattern.

Mr. OLSON: I hope you are not drawing a parallel between espionage and sabotage and rate-making.

Mr. MACDOUGALL: No; but the first probably, not the latter.

Mr. OLSON: Another point, Mr. Chairman, I would like to make has reference to section 387A, where they talk about what can be included in computing the costs. This is on page 53. In 387A (1) (a) it says that there shall be included a cost for depreciation and (b) a cost in respect of the cost of any money expended, whether or not the expenditure was made out of borrowed money. Does this mean, then, that if you include in your costs a portion for the cost of money, whether it is borrowed or not, you already have provision for a return on the cost of money, or the investment, whether it is borrowed or not; therefore, if you should come up with a break-even point in so far as cost is concerned, in concluding this formula, along with the revenue, you would already have a compensation for investment even though your cost using this formula would not exceed your revenue. You would already have that taken care of, would you not?

● (4.45 p.m.)

Mr. BANDEEN: You would not unless you had also covered the unrelated cost. Remember the \$295 million of unrelated cost which was shown on the charts?

Mr. OLSON: Is there no provision for the cost of money in the capital invested in unrelated cost—the cost of money there?

Mr. BANDEEN: Yes, there is; but my point is that you said if revenues were equal to the variable cost—I assume variable cost of every movement—would we not have enough money to cover the cost of the capital? My point is that you would not until the revenues had exceeded variable cost by enough to cover this unrelated cost which is nearly \$300 million.

Mr. OLSON: But if there is a cost of money in all of the calculations that go into the variable cost, plus the unrelated cost, you come up with the total cost.

Mr. BANDEEN: And you cover the unrelated cost.

Mr. OLSON: Pardon?

Mr. BANDEEN: And you cover the unrelated cost.

Mr. OLSON: Yes, I understand that; and you come up with a total cost which is equal to revenue, and you already have a fair rate of return on investment before you show any profit at all?

Mr. BANDEEN: That is right; it would show as a profit in the normal accounting procedures, because what this statement implies, to me at least, is that we are allowed to charge a cost of money on all the capital which is used in the corporation.

Now, in the case of the Canadian National this would mean that we charge on money that we borrow on the market in the form of bonds and also on the money which the government has invested in the form of equity in our operation.

In the case of the Canadian Pacific they would charge on their bonds, on their equity and on their retained earnings, all of which are a source of capital.

Therefore, when you translate this back into an ordinary profit-and-loss statement in order to get your profit, the return on this would already appear as a profit.

Getting back to the first part of your question, if the revenue equals the cost, including the unrelated cost, with this factor for money in, the profit would already show on the balance sheet at whatever return on the equity was built into the cost of money. You are quite right. There would be a profit there, and it would be deemed to be a fair profit. There was no thought that the profit should necessarily exceed that.

Mr. OLSON: The Chairman is waving his hand at me, so my time is up; but I would like to return to this.

The CHAIRMAN: Your time was up several minutes ago, Mr. Olson, but I thought the subject was important enough to let it go on. Mr. Howe?

Mr. HOWE (*Wellington-Huron*): Mr. Chairman, I want to go back to the question I was asking this morning about the effect of this bill on freight rates in general. In 1959, the decision was to raise the freight rates 17 per cent across the board. There must have been some discussion with the CPR at that time, because both railways were involved. Has there been any discussion with the CPR in connection with what is going to happen in your organization under this bill. What is going to happen to freight rates in general? How are they going to be affected by this bill?

Mr. GORDON: Well, what happened back in 1959, was that under the procedure at that time the railways had been faced with a very substantial wage demand which had come through a conciliation board and we were once again facing a strike. At that time we said that we were willing to settle the wage demand provided we could obtain authority to increase our freight rates. We took that case to the Board of Transport Commissioners under the rules of the day. They were very annoyed about having this put up to them. They protested that we should come to them and say "We have to have an increase in freights rates or there is going to be a strike." They objected to that very vigorously, and said they would never to it again. Faced with the hard economic facts they granted the 17 per cent increase. My recollection is that we had asked for 19 per cent, but it came out 17 per cent. We obtained that increase and we put it in force. It was a horizontal increase. Then the government of the day, some six or seven months later—

Mr. BANDEEN: I would have said two or three months later. It was after the turn of the year.

Mr. GORDON: That was three or four years was it not?

Mr. BANDEEN: It was in December that the Board gave its judgment.

Mr. GORDON: Anyhow, a few months after we had imposed the increase the government came along and rolled it back on the basis of reducing it from 17

per cent to something like 10 per cent over all, as I recall it. That is where the first roll back subsidy came in. That was government action.

Now, when you ask me if we have talked to the CPR about the question of how much it is going to be, in terms of a freight rate increase, when this bill goes through, my answer is specifically no; but certainly we will talk to the CPR and they will talk to us, when there are particular freight rates to be fixed. We will consult with each other because usually the applicant is dealing with both railways anyway. We will not actually be in that kind of competition, because usually the rate that is established is on an understanding of the railway facts. We arrive at what is the proper rate, all things considered, and we make the same kind of analysis and we arrive at the same result. I do not think there will be competition of that kind between the railways.

As I said this morning, I do not think anybody could honestly appraise all the market factors that will come into play when we are free to negotiate all through the piece the kind of adjustments in rates. Some rates will go down. I am sure of that. Some rates will go down. I am not suggesting that there will be a major downturn of freight rates. I do not think the economic facts would justify my saying that. But I do know that as a result of this bill, as near as we can appraise it—and remember that this is not our legislation; this is legislation for the whole transportation industry, and we are merely trying to give you our impression of how it affects us and pointing out the few places where we think it could be improved—we expect to be more competitive and to be able to do things which will save costs and perhaps attract greater volume—things of that nature—which will enable us to become more productive in the operation of our plant. We hope, through that increased productivity, to hold necessary increases to a minimum. There is nothing in this legislation which sets out to guarantee railway profits. There is no suggestion here that the railways should even make a profit, except to the extent that it rules that all our rates must be compensated. That being the case, then presumably we must be on the profit side when we are all through with it.

Mr. HOWE (*Wellington-Huron*): In other words, Mr. Gordon, at the present time you do feel that, taking all factors into consideration, there will be some increase across the board, but you do not feel that it will be large?

Mr. GORDON: There are different ways of doing it. Will you try it, Norman?

Mr. MACMILLAN: The part of it that I thought I would like to address myself to for the moment is that you said "across the board". We do not feel that will take place at all.

Mr. GORDON: No.

Mr. MACMILLAN: May I remind you that we have lived now for six or seven years in an artificial environment of control, and during that period industries have been established under this umbrella of control. When the control is removed we shall have to deal with industry on a very careful basis to make sure that we do not upset the future opportunity of many of these industries.

As we have said several times today, we are very conscious of the fact that what we are striving for is the traffic at the most intelligent rate we can get. It is far better for us to have more traffic at a lower rate than a lesser amount of traffic at a higher rate. We have speculated about what period of time will elapse before we get into a normal competitive environment, moving from this

one of frozen freight rates. I have heard a guess that it will take us ten years to move through that evolutionary period.

Mr. HOWE (*Wellington-Huron*): Is there ever any normal period? What is normal?

● (4.55 p.m.)

Mr. MACMILLAN: Well, I do not know. Normal for the last several years has been sub-normal freight rates.

Mr. GORDON: You mean abnormal.

Mr. MACMILLAN: That is right.

Mr. HOWE (*Wellington-Huron*): We all look forward to that normal period of our lives, but when is it?

Mr. GORDON: I think the normal is spelled out in this legislation and that is what I keep on referring to as the self-regulating discipline of competition.

Mr. HOWE (*Wellington-Huron*): But nothing remains static, Mr. Gordon. There is always a fluctuation.

Mr. GORDON: It can fluctuate on all sides. I mean we are talking about transportation as a service to this country—trucking, water, pipelines, air, everything you want; and we will all adjust ourselves in this period which we are coming into—we will all have to adjust ourselves to see where we can live.

I think I have already said, and certainly it is my view—and I think my officers share it with me—that in specific instances we are not going to struggle for the traffic that really does not belong to the railways. If our mode of service is not the most effective, most economic, lowest cost, best service there is no use our trying to get it. It is better to let the trucks get it, or it is better to let the pipeline get it. If they have a particular, inherent advantage, or their style and mode of transportation are better than the railway, then in the national interest that is the one that should be used. We are not going to kill ourselves trying to take it away just for the satisfaction of running it over our rails.

We want to make money. We want to give service at a fair rate, and help any of our plants and so forth to reach their market. No matter who the shipper is, it is in our interest to study his problem, and we have been doing that more and more under our customer service which we established several years ago. We will go into a man's plant now and sit down and study his problem. His problem is to get from here to New York or from here to Chicago. We will sit down and study that as a problem. If we find that he is manufacturing or producing some kind of goods which do not lend themselves readily, or best, to railway shipment, we will tell him so; and if it happens that we can advise him to make some changes in his method of production and his chain of movement and so forth, we will tell him that too. We will advise him about his packaging—the way to do it. We will show him the cheapest way of doing it. We are not out just to gouge him. We are out to let him get to his market, if he can reach his market at the price that we are able to quote. We will, of course, having found out our own costs, get as much freight rate as we can, so long as we are able to let that man reach his market.

This is where the competitive influence comes in when we talk about market situations. It is not necessarily direct competition with the modes either, whether railway or truck, as the case may be; it is the market we have to reach

What are the factors? There may be handicaps in regard to his geographical position, of which we have to take account, and we will so long as we can make some money out of it. We will do our best to see that he reaches his ultimate market; Otherwise it would do no good to any of us. We do not get the traffic, he is out of business and the country suffers.

Mr. HOWE (*Wellington-Huron*): What percentage of your freight business goes by truck today? You are in the trucking business as well.

Mr. GORDON: It is pretty small. It would be about 2 or 3 per cent, would it not?

Mr. HOWE (*Wellington-Huron*): That is, that goes by truck and car. You have some services where they go so far by rail and—

Mr. GORDON: About 2 or 3 per cent.

Mr. HOWE (*Wellington-Huron*): That would be the total.

Mr. GORDON: Yes. It may grow. It depends.

Mr. HOWE (*Wellington-Huron*): Thank you, Mr. Gordon.

The CHAIRMAN: Before going around the third time, I have to estimate that the two members who have not asked questions have indicated that they would like to, so we will follow our normal procedure.

The Honourable J. W. PICKERSGILL (*Minister of Transport*): Mr. Chairman, before you proceed, I wonder if I could just clarify one observation made by Mr. Olson, which I think might be misunderstood from the government's standpoint.

Mr. Gordon said that there was nothing in this bill to guarantee the railways any profit. That is certainly true. The whole object is to let the railways "scrounge" for themselves, as everybody else does in business. But he did say "except for the provision that the railways must get their variable costs." Now, that is not put in to earn money for the railways. That is put in to protect other modes of transport who have the fear of being put out of business by cut-throat competition. I just wanted to make it clear that even that was not put in to guarantee any profit to the railways. It was put in to make sure that competition could not be extinguished by charging less than cost in order to put them out of business.

The CHAIRMAN: I should clarify something here. I hear that Mr. Horner is a little disturbed that he is not being called the third time. Our procedure in this committee has been to give everyone a fair chance, and those who have not asked a question will be asked to do so if they have a question. That is the procedure that was followed, and that is the procedure we approved at the last meeting.

Mr. HORNER: I was—

The CHAIRMAN: Well, you were not at the last meeting, to be able to comment on it, Mr. Horner, and that is the procedure we have been following.

Mr. STAFFORD: I just want to ask a couple of questions. How many shippers in the west, Mr. Gordon, would come within the definition "captive shipper"?

Mr. GORDON: I have not the faintest idea.

Mr. STAFFORD: Have you any idea of how many in Ontario, or in the Atlantic Provinces?

Mr. GORDON: No, I do not know; and we will not know until this bill is operative; and then we may find to our surprise, somebody who regards himself as a captive, whom we would never dream of as a captive. We do not know. I do not think anybody could really pinpoint, on the basis of the present definition, all the factors that would lead a shipper to believe that he is a captive. He may think he is a captive and it may turn out that he is not.

Mr. ALLMAND: Mr. Gordon, at the bottom of the page 6 of your main brief you say that it is the company's view that there is a general need in Canada for a governmental supported programme for research and development for the transportation industry, and then you go on to say that you hope that this bill will provide for that. But I cannot understand, when you ask for that, why, near the bottom of page 9 of your main brief, you object to certain sub-sections of section 16. For example, you object to section 16 (1) (c), which gives the commission the right to inquire into, and report to the Minister on, the relationship between the various modes of transport in Canada and upon the measures that should be adopted in order to achieve a coordination in development. It would seem to me that that section gives the commission the power to do just what you would want to do. Do you not want to see coordination in development, etc. done by the commission.

Mr. GORDON: Not fully. It says somewhere else that we would prefer that the two commissions be separate. On page 8. . . .

Mr. ALLMAND: Yes, I saw that. It is not so much that you object to those powers being exercised by a federal agency, but that you do not think they should be exercised by the same body?

Mr. GORDON: By the same individuals—mixing up the research policy with the implementation of regulatory duties of the directors under the bill.

Mr. ALLMAND: Why, though? Why do you think it is not good that the regulatory part be combined with the research part. Would there not be more coordination then?

Mr. GORDON: No. I think what we are trying to do is give a little fatherly advice on how the commission's powers should be most effectively used. Now, this is a matter of research in which Dr. Bandeen has a very special interest. I think it would be appropriate if he would deal with this point.

Mr. ALLMAND: What I would like to know is why you think it is so important that research be separated.

Dr. BANDEEN: First of all, we have a feeling that there is a need for independent research—independent of the government, independent of industry in Canada; that we have sufficient and unique problems that we cannot rely on the research being done in other countries to the extent that we have in the past; and that there are many problems of transportation that are peculiarly Canadian. We would like to see set up a body which was independent, which had no particular position to defend and which would be capable of doing research into the various economic and technological transportation problems.

Having said that, why we think that this new commission cannot do that is that the new commission is charged with regulating the railways, regulating the trucks and regulating the pipelines, and there will always be a temptation to mix regulation and research—or there could be a temptation. This has been one

of the problems that the Interstate Commerce Commission in the United States has had. There are several good examples of what I mean by this, where railways have attempted, by reducing rates and introducing new equipment, to get traffic back—the instance I am thinking of was from the barge lines—and the commission studied it and decided that if they did this the particular barge lines might go bankrupt, or at least would be in a bad situation, and that it was not good for the policy of the country to have these barge lines out of business. Therefore, they disallowed the railway. They claimed that the rate was perfectly compensatory, that it was a good rate; however, it would have an adverse affect on the bill and can lead to that type of situation. Now, we are not saying it has to. The only question here is that we do not see the advantage of combining the two functions under one roof, so to speak, unless there is some intention to have this cross-fertilization. If there is we can foresee an awful lot of danger coming out of it, in that you are asking the same person one day to do research, to advise the government on policy, look into economic situations, and the next day he is ruling on whether the rate that the railways or the truckers charge is fair and just. Is he using the standards of research to rule? I hope not, because it may not be in the statute, it may not even be government policy at that point.

We fail to see the advantage of having these two combined but, since the bill suggests they should be, all we are doing is cautioning that if they are combined, let us hope that they keep their two arms separate and do not misuse their research powers in a regulatory field.

● (5.05 p.m.)

Mr. ALLMAND: It does not appear to me that it would be the same people but those two subsections that you particularly object to (c) and (g)—(b) I believe is the one that deals mainly with research—you have not really referred to that.

Mr. BANDEEN: No, of course.

Mr. ALLMAND: But (c) seems to deal mainly with co-ordination in development, regulation and control. It seems that that co-ordination should be necessary in a large country like Canada where we have limited funds for investment in transportation generally.

Mr. BANDEEN: Well, the minute you do that you are saying that competition will not let the best or the cheapest carrier come to the top and prevail. You are saying we have to go beyond competition and determine which carriers shall be where, and how much, and how effective. That is what we are arguing against. Either the bill is for competition as it says at the beginning or it is not. The problem that has come up in the United States has arisen precisely under this same type of wording where they are attempting to co-ordinate the various modes. The case I have in mind is a grain movement in the southern United States where the railway put in effective rates; it was ruled compensatory; it was above variable cost; and they still were not allowed initially to put that rate into effect because a barge operator was going to suffer financially because of this. The Interstate Commerce Commission decided that the barge operator should not suffer. Now, this was called co-ordinating the modes of transportation. But, to me it was complete frustration of competition and, it has since, I might add, been overruled by the Supreme Court of the United States, and they have been allowed to put the rate into effect. This is the kind of thing we would like to warn against on any new commission coming in.

Mr. MACMILLAN: May I just add one thought which is inherent in everything that has been said and which has not been said. It is this; this looking over the shoulder at the competing form of transportation as the result of the public being denied rate reductions—it is all directed to rate reductions—every time it has arisen in the Interstate Commerce Commission it is where truck, railway or barge has tried to reduce a rate to the public. The competing form of transportation has taken the position that it ought not to be permitted because the competitor could not live under this reduced rate. The result has been that the public has suffered and they have not received the rate. That is what we are warning against.

Mr. ALLMAND: Well, it says in clause 1 that these objectives are most likely to be achieved through competition but, then, it has an exception, of course. I was just thinking that you would need this Section 16(1)(c)—not that it would be the overbearing—that it would rule—it would be more or less to watch and to co-ordinate when necessary, in accordance with the act. The act says that the primary rule will be through competition but, there might be exceptions and there should be somebody there to co-ordinate. I can see where it could have abuses.

Mr. BANDEEN: Well, I think that all we are saying here is that we are warning that this could lead to a lot of difficulties if it is misused.

Mr. ALLMAND: Well, yes, I see—something with everything.

Mr. HORNER (*Acadia*): Thank you, Mr. Chairman. I would like to point out one weakness in your style before I proceed questioning if I might. You can call it a point of order. When you are permitting questions before this Committee one could sit here all day and go through a series of questions; somebody could walk in and not have asked a question all day and, under your system, he would receive priority over somebody who sat here.

The CHAIRMAN: I have had to clarify this far too many times but let me do it again. It is not the Chair's system; it is a system approved by this Committee as a whole, Mr. Horner, and by all members unanimously of this Committee. I am bound by those rules of procedure and I see no reason why one member should be treated any differently from any other member of this Committee.

Mr. HORNER (*Acadia*): Fine, fine; I do not want to—

The CHAIRMAN: Proceed with your questions, please.

Mr. HORNER (*Acadia*): I pointed out—on the point of order, yes, Mr. Chairman.

The CHAIRMAN: Well, there is no point of order on it, Mr. Horner.

Mr. HORNER (*Acadia*): Well, I want a point of order.

The CHAIRMAN: Well I rule there is no point of order! It is a rule of this Committee set up by the members of this Committee.

Mr. HORNER (*Acadia*): Well, I pointed out one weakness in any case.

The CHAIRMAN: Well, I hope you always have the floor, Mr. Horner. Go on with your questioning otherwise I will have to pass to someone else.

Mr. HORNER (*Acadia*): Your system of asking questions tends to delete—

The CHAIRMAN: Mr. Horner, if you wish to ask your questions proceed, otherwise I will move to another member.

Mr. HORNER (*Acadia*): You can do as you like. I am prepared to ask my questions.

The CHAIRMAN: Fine. Please ask your questions.

Mr. HORNER (*Acadia*): I am a member, you are the Chairman.

The CHAIRMAN: Would you kindly proceed with your questions.

Mr. HORNER (*Acadia*): Mr. Macdougall, I believe you suggested that for the past six or seven years you have been under control, the railways have been under control, and have been in a straight-jacket. How did you arrive at this and what controls were you referring to.

Mr. MACMILLAN: I think it was myself.

Mr. HORNER (*Acadia*): Yes, Mr. MacMillan.

Mr. MACMILLAN: What I had in mind there was the rate freeze.

Mr. HORNER (*Acadia*): The rate freeze? Was the rate freeze on all rates?

Mr. MACMILLAN: Effectively.

Mr. HORNER (*Acadia*): Effectively, but it was not on all rates, practically.

Mr. MACMILLAN: No, there was room to move—

Mr. HORNER (*Acadia*): Well, the principle of rate freeze as I understand it applies only non-competitively.

Mr. MACMILLAN: That is right.

Mr. HORNER (*Acadia*): In other words, you were not frozen; you were not in any straight-jacket with regard to something like 52 per cent of your freight movement.

Mr. MACMILLAN: I would think that would be correct, yes.

● (5.15 p.m.)

Mr. HORNER (*Acadia*): I just wanted to clear the record absolutely because this rate freeze did not create an undue climate too far off from what one might call normal or the norm. Mr. Bandeen, you suggested that you have done something like 100,000 costings. Could you give the Committee some idea as to what these costing studies were on?

Mr. BANDEEN: They cover practically every type of movement that the company is involved in. They arise primarily as requests from the sales or traffic department, and it can be any type of movement in the whole system.

Mr. HORNER (*Acadia*): In other words, you have pretty well gone over everything that the railways move.

Mr. BANDEEN: Well, we have not covered every movement of the railway, but we have covered a representative number.

Mr. HORNER (*Acadia*): You also suggested that the CPR pretty well accepts the costing system you outlined for the CNR today. Theirs is so similar that there would be very little difference.

Mr. BANDEEN: There was a joint presentation on costing in which they participated, and they endorse it, so far as I know.

Mr. HORNER (*Acadia*): Would it be logical to assume that the CPR could look at a certain tonnage of goods you are moving over a certain distance of miles and know pretty well what your cost would be on this movement.

Mr. BANDEEN: I would like to just clarify that. I said the CPR uses the same methods of costing as we do; I am not trying to be devious on this, but I want to point out to you that by "method" I meant the same approach and general style of costing—I can not think of the exact words. But they do not know our train performance on each subdivision, and there is no reason why they should know it. They do not know the switching costs in any of our yards, and there is no reason why they should know. What they do is calculate their switching costs in their yards on the same basis we do, and what they do is calculate their train costs on the same basis we do.

Mr. HORNER (*Acadia*): And they come out to relatively the same figure?

Mr. BANDEEN: Well, we have found that there can be quite significant differences because of different situations. It depends on the number of yards you go through, the characteristics of the yard, if we are using a hump yard or flat switching yard and they are not, and so on.

Mr. HORNER (*Acadia*): But in a like situation though they could come up with a similar cost figure.

Mr. BANDEEN: Yes.

Mr. HORNER (*Acadia*): And so, in effect, the railroad, either your railroad or the CPR, can take a pretty close estimate of one another's cost figures.

Mr. BANDEEN: We interchange cost information, and I believe if it is allowed in here it will be allowed under the future one. We interchange cost information on certain movements that are of joint interest to the two railways. We do that now, and we propose to do it under the bill.

Mr. HORNER (*Acadia*): Mr. Gordon, what would you call a shipper now in an area which is served by non-competitive rates? He would not be a captive shipper in your definition, would he?

Mr. GORDON: I am not trying to define anything. I would want to know the exact facts before I give any opinion, and I would not give an opinion then until I had consulted my experts who know more about these things than I do.

Mr. HORNER (*Acadia*): Well, let us suppose the shipper of a certain line of goods is now receiving non-competitive rate treatment from the railroad. Under this legislation would you feel he would fall under the category of a captive shipper?

Mr. GORDON: Not necessarily.

Mr. HORNER (*Acadia*): Why then is he receiving non-competitive rates from your railroad?

Mr. GORDON: What do you mean by non-competitive in that case?

Mr. HORNER (*Acadia*): Well, according to the figures 29.6 per cent of the traffic moved by the C.N.R. moved through non-competitive rates. I want to find out who those people are.

Mr. GORDON: This becomes a technical question. Mr. Gardiner, I think you might take it on, will you?

Mr. GARDINER: Mr. Horner, may I first clarify one point of terminology which is not of our own making but is part of the industry. What are known as non-competitive commodity rates are rates which were set below the class rates

in order to meet, basically, market conditions—that is, commodity market conditions. The only rates which are flagged, as we call them, and are shown in tariffs as competitive rates, are rates which have been depressed below the class rate to meet a situation of intermodal competition—it could be trucks and the tariff has to show, in order to meet truck competition; it could be water, like along the St. Lawrence Seaway, and there it is shown, in order to meet water competition. Now, having said this, to go back to your own question dealing with the 29 per cent of revenue moving under so-called non-competitive commodity tariffs, you will find in that lot items that are moving at very low rates when measured against the class rates that would normally apply, and this very low rate has been quoted specifically to assist the Canadian shipper to move his goods to a market which could be inside Canada or over to Vancouver for export.

Mr. HORNER (*Acadia*): But non-competitive rates are not so low as to be lower than the competitive rates?

Mr. GARDINER: As a matter of fact, some are much lower.

Mr. HORNER (*Acadia*): You are suggesting that a flatcar of tractors moving 100 miles in Ontario would have the same rate as a flatcar of tractors moving 100 miles on the prairies?

Mr. GARDINER: No, I was not speaking about that. I would go back to the example requested by Mr. Olson earlier this afternoon, which was potash moving from Esterhazy, Saskatchewan to Vancouver. Well, I defy any trucker to live with those rates. It just is not possible.

Mr. HORNER (*Acadia*): I am not saying that he should but we in the west must be greatly worried about this bill and the definition that the new commission will give to a captive shipper. What is it? Mr. Gordon said he could not find it. I hope the commission does not take that narrow a point of view because we must receive greater assurance in the west than that.

Mr. GORDON: But what is not dealt with in this bill, you see, along the lines of what Mr. Gardiner has been outlining is this. There is nothing in this bill that thinks about competition in terms of market competition. It is almost impossible to define the sort of things that go into market competition. It becomes a question of fact. You might have market competition that might involve traffic that has to move a thousand miles; you might have it move fifty miles—it depends on the circumstances. And if a particular shipper—let us say he is a manufacturer—comes to us and says, look, I have to reach Chicago, and I am meeting competition in the Chicago market, and on the basis of my costs of production and so forth I can not stand your freight rate, well then we will sit down and we will analyze that and find out what our own costs are, and we can then determine whether or not we can temper the wind to the shorn lamb, if you want to put it that way, and give him a rate that will still show us a profit but which will enable him to meet his market competition. Now that could be regarded as a non-competitive commodity rate, because it is the market competition that makes it competitive.

Mr. HORNER (*Acadia*): Well, I understand your point of view. I am just thankful that you are not going to be on the new commission and the new commission is not going to accept necessarily your views in that regard.

I would like to say before I am through my questions that I agree with Mr. Bandeen that this research part of it should be separate from the commission, and I certainly hope that somewhere this amendment can be made.

Mr. MACDOUGALL: Mr. Horner, this perhaps should be clarified for the record. This section 336 of the new bill, which deals with the captive shipper, provides that the captive shipper himself must come forward—that is, the man who wants to be declared a captive shipper. He has to come forward himself and say, I think I am captive and I want to have a rate fixed for my product. I am willing to give a hundred per cent of my traffic to the railway and I want to have my rate fixed. So it is up to him to come forward.

Mr. HORNER (*Acadia*): Does he have to say I want to give 100 per cent, maybe he can not.

Mr. MACDOUGALL: Well, he is required by the bill, if he is going to get the captive rate, to give his traffic to the railway. Otherwise he is not captive.

Mr. HORNER (*Acadia*): Well, let us suppose he is speaking for an industry.

Mr. MACDOUGALL: If he has 10 per cent to give to the trucker he is not a captive; they will tell him to go and peddle his goods somewhere else. If he is really a captive and he is willing to show he is captive by giving 100 per cent of his traffic, then he comes forward and says, I want a captive rate. Then the commission will deal with it; it will look at the facts to see whether or not, under the ruling here, which says that he must be someone who has no other effective alternate competitive service, he is a captive shipper. If they decide that he is, then they will fix a rate for him. But the onus is on him to start it. He is not going to be at anyone's mercy. That is why we do not know who he is going to be.

● (5.25 p.m.)

Mr. HORNER (*Acadia*): Mr. Chairman, before too much time has elapsed, we are going to have to make a decision with regard to receiving some of the cost analysis studies that both the railways have already done, so we can proceed with examining the exact techniques that they use on given subjects. We will then have an idea what is meant by costing, who is going to do the costing and how exactly it will be done.

Mr. SCHREYER: Mr. Chairman, a few minutes ago Dr. Bandeen said that the system of accounting in use by the CNR and the CPR was essentially the same in style. I would like you to be a little more precise. Do you mean in fact that it is a uniform system that is prescribed by the regulatory agency, in this case the Board of Transport Commissioners. Of course I realize, as you stated earlier, that the results will vary depending upon the cost factors, efficiency of plant organization and so on. Is the system of accounting and cost accounting a uniform one as prescribed by the regulatory agency?

Mr. BANDEEN: Let me just straighten out the confusion that I think is arising here. Accounting is quite separate, and although there is a uniform system of accounting that is prescribed by the Board of Transport Commissioners, this is not what is used for costing. I do not mean that the data out of this is not used for costing, but the methods of costing are quite different than the methods of accounting. The accounting is a historical record of what we have done, and it is on the basis of this that we do our costing. The board specifies a uniform classification of accounts for accounting purposes. For

costing purposes the board does not prescribe at this time a uniform costing method. The costing methods of the two railways have grown up over a number of years. They received a tremendous impetus at the time of the MacPherson Royal Commission and we have advanced greatly since that time. We have freely exchanged information between the two railways on our costing methods throughout the development of these, and we know now that our costing methods are similar, if not exactly the same, through interchange of information.

The Board of Transport Commissioners is aware of what both railways are doing in the field of costing, and in the last few years we have presented cases to the Board of Transport Commissioners involving costing. I am thinking now of branch line abandonments in the east and the discontinuance of passenger services. The board has had to rule on the costing of both railways. Therefore, at the present moment the board does not prescribe our costs. However, from my knowledge of what the CPR is doing and, of course, what we are doing internally, I can say that our methods are the same—perhaps I should say similar, because there are these differences between the railways. But the principles are the same. If I understand it, under this bill it will be one of the duties of the new commission to prescribe the items and factors that go into costing. Therefore, under this bill it is envisioned that the new commission will prescribe items and factors. I have forgotten the exact section, but it is near the end.

Mr. SCHREYER: And in your opinion, Dr. Bandeen, is it practical and desirable that this be done under the new legislation?

Mr. BANDEEN: Yes, that the board prescribe the items and factors. Of course, from a purely railway point of view, it might be better if they did not; the fewer regulations there are, the easier it is for us to live. But I think this is an area in which they should prescribe the items and factors. It gives the other interested party a chance to challenge the items and factors, and to come forward with their ideas on it. It does not disclose the cost of the railways, something we discussed earlier today; it does not put us at an unfair competitive disadvantage because all that is being prescribed here are the items, the factors and the method of costing and not the actual cost. The bill is very careful, as I read it, to preserve the confidential nature of individual costs which are submitted to the commission by the railways.

Mr. SCHREYER: It is hoped under the provisions of this legislation that the different modes of transportation will become more competitive once they are freed and so on. For example, once trucking becomes more competitive with rail transportation, would it be practical, in your opinion, to bring extra provincial trucking under the same prescribed system of accounting and cost accounting?

Mr. BANDEEN: That is a very difficult question for us to answer as such. The government, in their bill, has a section of the bill devoted to—

Mr. SCHREYER: I am asking for your professional opinion.

Mr. BANDEEN: I think all modes of transportation should be under the same degree of regulation, the same degree of freedom, if you wish, and the same conditions vis-a-vis costing and accounting, so they can compete on a fair basis. Yes, we would like to see the trucking business have the same conditions

applied to them as apply to the railways but, in both cases, we would like to see a minimum amount of regulation. As between modes, the regulation should be the same.

Mr. SCHREYER: Mr. Chairman, I am not sure if I should direct my next question to Dr. Bandeen or to the Minister, but is it the intention under this bill to bring extraprovincial trucking under the same prescribed system of accounting?

Mr. PICKERSGILL: There is no intention, under this bill, to do anything whatever about extraprovincial trucking, except to make it possible for the governor in council, at some future date, to have the commission apply to extraprovincial trucking any regulations that may be made under the legislation at some future date. But for the present, it is intended to continue exactly with the situation that exists now, whereby the provincial agencies do such regulating as agents of the federal government.

Mr. SCHREYER: Mr. Chairman, I am thinking of a problem whereby, under the provisions of this bill, a situation will develop where trucking will come more into competition with the railways. Under this bill we are laying down certain stipulations to the effect that rates shall be compensatory and so on, as charged by the railway. Now then, if we do not bring extraprovincial trucking under the same kind of system of accounting, there will be a time lag during which time, in my opinion, extraprovincial trucking will have an undue advantage.

Mr. PICKERSGILL: Although it is fine for members of the opposition, it is a very salutary rule for members of the government not to try to envisage hypothetical situations and to provide solutions for problems that we are not yet ready to try to solve.

Mr. SCHREYER: Mr. Chairman, if I still have time, I would like to direct one last question. Mr. Gordon told us this morning, and I hope I did not misunderstand him, that for his part he would not want to disclose to this Committee the variable cost data relating to captive shippers, relating to shippers of non-competitive commodities and so on, because this would undermine or impinge upon the competitive position of the railway, either directly or indirectly. Now that is expressing a proprietary right—and one can understand that—but it seems to me that this comes into conflict with another right, the right of Parliament or of a Committee of Parliament to have full disclosure. I believe Mr. Gordon said that the railway would be prepared to provide this required data to the regulatory commission, but would not want to provide it to this Committee. I would like to ask Mr. Pickersgill if this does not raise a serious problem. I believe that whatever is revealed to an agency of the Crown, or to any governmental body, should also be revealed to Parliament or a Committee of Parliament. I cannot, for example, visualize in the United States, any regulatory agency or any corporation—TVA, for example—refusing to reveal to a congressional committee something which it has to reveal or is prepared to reveal to an administrative agency like the Interstate Commerce Commission. Where does that leave us? We have to exercise our responsibility, which is to evaluate the proposed legislation and how can we do that without having full disclosure?

● (5.35 p.m.)

Mr. PICKERSGILL: I am very happy to have an opportunity to answer this question. It is not a hypothetical question but is a real question about a real situation. The Air Transport Board awards licences. It exacts from the applicants for licences a great deal of information about their private affairs, the affairs of these businesses. That is all privileged information, it is not disclosed. I was a Minister of Immigration for many years and I took the position which Parliament authorized me to take, that private affairs of immigrants were not to be publicly disclosed. Under the Statistics Act all the statistics that are collected from private individuals are completely privileged and no member of parliament can get them. The same thing is true of individual income tax returns. The same thing is true of the details of individual transactions with the Unemployment Insurance Commission. In fact, wherever government requires proprietary information in order to regulate intelligently but where the disclosure of that proprietary information would put the person to whom it belongs at a competitive or bargaining disadvantage, Parliament has always been zealous to protect those rights. I indicated in my statement the other day—and I read very carefully from a document which I did not identify at that time—the view that I took and the view that the government took on this matter, and that was if we could be given examples, typical examples of persons who were now paying maximum rates to the railways. It seemed to us that anyone not paying a maximum class rate must either have a competitive rate or a rate that was in some way negotiated. In other words, a rate that was bargained about. The view that we have taken is that where bargains are made with the railways, the bargaining power of the railways should not be eroded by disclosure any more than we would make the shipper disclose how much he could afford to pay. We would not think of doing that. But, the genuinely captive shipper—as Mr. Gordon, I think, quite properly said—can only identify himself after this law is passed. The only person who is going to be a captive shipper is the man who does not make a bargain with the railways but who goes to the Commission and says: I think I would do better as a captive shipper. Now in that case the railways will have to disclose their variable costs and satisfy the board because otherwise the rate cannot be established. I offered—and the Prime Minister offered the document I read from—that if we were given typical examples of shippers now paying maximum class rates that there would be a presumption in that case that they would be likely to be captive shippers under this act. If we could be given those typical examples, then the government would endeavour to obtain information about this. But we felt that just to ask the railways to disclose information about the rate they gave for instance, to the potash shipper who obviously has made a bargain,—and I suspect a very tough bargain—with the railway in order to enable someone who wants to start another potash mine to have the advantage of that information in order to drive a still harder bargain with the railways, was not in the public interest. After all, we must remember with respect to one of the railways, the one from which we have witnesses before us now, that the losses of that railway in the final analysis—unhappily it still has losses—have to be paid by the taxpayers of Canada. It does not seem to me from the point of view of the taxpayers, to whom we have the first responsibility, that we should have an interest in eroding the bargaining position of the Canadian National Railways with respect to any shipper who has a bargaining position. All that the government feels we ought to do is to protect the genuine captive shipper who has no alternative but to ship by the

railway and has so little bargaining power that he cannot bargain effectively. That is the purpose of the maximum rate formula. I must say I agree very strongly with the opinion expressed by Mr. Gordon and which I may say was not formed by any collusion whatsoever. I spent hours trying to think who these captive shippers might be. I have found it very difficult to figure out who they would be. It is very easy to make vague, general statements that this is going to discriminate against the West or northern Quebec or the Atlantic provinces—of course it will not affect the Atlantic provinces in any significant way at all for the first two years after the bill comes into operation—it is all very well to make these statements but I was brought up in a household where, if generalizations were made, we used to ask the person to name three or cite an example. I suggest that is a very good test even when you are an adult. You can do a great deal more with a concrete case than you can by making generalizations. Quite frankly, I would not know—if I wanted the information privately for my own use—what to ask Mr. Gordon. I would not know who these captive shippers are going to be. Some people may know who they are going to be. If I might make a suggestion—and I am sure Mr. Gordon and his associates will not like my suggestion—but Mr. Olson started out on a rather useful line, although he did not pursue it, when he mentioned one or two commodities and asked whether they had made a bargain with the railways or whether they were paying the maximum class rates.

Mr. OLSON: I did not have enough time.

The CHAIRMAN: You were given ten minutes more time than is normal.

Mr. PICKERSGILL: Well, at any rate, I do not know whether I have answered your question.

The CHAIRMAN: Well perhaps we can then give Mr. Olson the opportunity of giving those examples of captive shippers.

Mr. OLSON: I have already spoken, Mr. Chairman, I do not want to interfere with—

Mr. SCHREYER: Well, I just want to take a minute to conclude. I do not want to press the Minister to the point where he could not conceivably answer but I must conclude from what he told us that the function and scope of the legislative committee here is just a bare skeleton of the function and scope of the legislative committee at work in the United States. Now, if we are going to do a proper job, it seems to me we have to be given plenary power.

Mr. PICKERSGILL: That, of course, is the most fundamental question of all. As you know, under the Constitution of the United States the legislative and executive functions are separate. Legislation does get through the Congress of the United States but I have never observed it enough to understand how. It is a very mysterious process. But it is not mysterious in our country at all. So far as government measures are concerned the government introduces a measure and stakes its life on that measure. I said in the House that that is precisely what we are doing with this bill. I said that in so far as the details were concerned, if someone could suggest improvements that I had been authorized by my colleagues, and I repeat that now, to say that we would accept improvements. However, it is one of the basic principles of this bill, and I explained that at length before the bill was given second reading, that with respect to the

Canadian railways the basic principle that the government is recommending and staking its life upon is that the railways are to be allowed to compete with two limitations. The first is that they are not to be allowed to quote rates below their variable costs. In other words they are not to be allowed to lose money to put competitors out of business. We do not apply the reverse to trucks; we do not think there are any truckers yet that could put the railways out of business, although some of them have been trying very hard, I think.

The second principle is that we intend to impose a regime which we believe will protect the unprotected shippers in this country from the possibility of exploitation by the railway. We do not think it is necessary to set the rates, for example, of the International Nickel Company which, I am sure, is not paying class rates on its shipments. We think they have sufficient bargaining power and we think it has been demonstrated by themselves. Therefore, if the Committee did not exist, it seems to me that we would have to do over again what has already been done by the MacPherson Commission. In other words, we are not conducting an inquiry like Mr. Basford's and Senator Croll's committee. We are dealing with a piece of legislation, a piece of legislation that has a certain framework. Nor is the Committee here to redraft the legislation. The Committee is here to improve it, certainly, but not to redraft it basically. That is because we have responsible government in the parliamentary system and not the congressional system. I do not know whether I have stuck my neck out. I am going to hear of many people wanting to change our system of government but as long as we have our system of government it seems to me we have to operate within the framework that we have.

● (5.45 p.m.)

The CHAIRMAN: I do not want to infringe on Mr. Sherman's ground but it was my intention to adjourn the meeting at 5.30. It is my intention now to adjourn at 6.00. Mr. Sherman will be the first one on at 8.00 o'clock but I will give you your last question and then we will hear from Mr. Olson on captive shippers.

Mr. SCHREYER: According to the documents which Mr. Sherman was making reference to earlier today there was a statement made by the Transport Committee of the Government of Manitoba to the effect that certain critical data was refused them on the grounds that the bill was before a committee of parliament; the implication being that subsequently it might be made available to the Government of Manitoba. It would seem from the Minister's remarks and from Mr. Gordon's remarks earlier today that this critical data will not be made available in any event.

Mr. PICKERSGILL: I said a committee of parliament. I would like to raise a point, and I do not wish to do this in any offensive way, but there has been certain correspondence between the premiers of the western provinces and the Prime Minister. That correspondence has not, up until now, been made public but I do think that if it is to be the subject of any discussion in the Committee that the only proper thing to do would be to make copies of it available to the Committee and not just as the reply of one provincial premier but as a whole of the correspondence. If the Committee feels that is the desirable thing to do I have the Prime Minister's permission to make it available. It will make the position clear but I do not think I should make any kind of observation about it until it is, in its totality, available.

The CHAIRMAN: I think I should bring to the Minister's attention—I think we discussed this when you were not here today—that this matter did come up and it was not a ruling but it was the suggestion of the Chair that if the telegrams or correspondence were to be tabled, then both the Prime Minister's and the premiers' should be tabled.

Mr. Olson, would you like to give examples of captive shipping before six o'clock?

Mr. OLSON: Mr. Chairman, sub-section (1) of section 336 on page 42 says: "A shipper of goods for which in respect of those goods there is no alternative, effective and competitive service by a common carrier other than a rail carrier . . ." and so on, may make application to have a maximum rate fixed by the new transportation commission. My interpretation of that, Mr. Chairman, is that if there is no alternative, effective and competitive service by reason of the fact that the railways can haul this particular commodity so much cheaper than any other mode of transport, then simply by the price he is a captive of the railway. Now, when it comes to farm machinery—I pointed that out—it is possible, I suppose, to take any kind of a machine and disassemble it or take repair parts and even ship them by air. That certainly is not an alternative, effective and competitive service. It is also possible to take almost any piece of farm equipment by highway transport from Hamilton or Toronto to Calgary. If we are going to give the usual connotation to the words "alternative, effective and competitive" and relate this to the rate that would be charged and the cost that would determine what that rate is going to be, then I suggest to you that the transport of farm machinery from Toronto to Calgary is a captive shipper. Further, rolled plates of steel from Hamilton to Edmonton; the railways are the only people who have the facilities at the cost for moving steel that distance which is anywhere near or so much lower than any other kind of shipment that under the definition that we have of alternative effective and competitive service this is the only way that steel can be shipped. I am not particularly interested in whether Stelco, or whoever else it happens to be, is a large firm because it is the user of that steel out in Alberta that pays the cost anyway. The suggestion was made that INCO, International Nickel, are now so weak that they are not competitive but I suggest to you, Mr. Chairman and to the Minister, that nickel concentrates, for example, go from Thompson, Manitoba, to Fort Saskatchewan in Alberta where they are refined into various kinds of products. In effect, eventually the question is whether or not that plant should be there, depending on the rate they can get from the railway to haul it. If they do not get a rate that is within reason in relation to the costs then, of course, it will not be there and that does affect everybody in the area and not only INCO. Therefore, I suggest that the examples that I have given—and I have done this before—farm machinery from Toronto to Calgary, steel sheets from Hamilton to Edmonton, potash from Esterhazy to Vancouver and it was suggested, I think, by Mr. Gardiner that no trucking firm, no highway transport could live with the rates that the railways are charging now on this commodity. We still do not know how much the railway is making on the rates they are charging over their variable costs because we have not got the variable costs. It may be 300 per cent as far as railroad variable costs are concerned, and it may be only 10 per cent or 25 per cent of the variable cost as far as highway transport is concerned. We do not know because we have not got them. I

suggest, Mr. Chairman, because of the rates and the cost factors that go into these variable costs with respect to the railways as opposed to any other mode of transportation that it makes the shippers captive shippers. This is what I cannot understand. How can we be asked to approve a formula that is going to be applied when we have no idea at all what the effect of applying this formula is going to be in relation, not to highway transport costs but to railroad variable costs.

The CHAIRMAN: Mr. Olson, will you let Mr. Gordon answer that, please. I think you have made your point there.

Mr. GORDON: I will make one comment, seeing that we are just about at the adjournment stage. If we take your interpretation, as I have heard it, you are surely saying that in every case where the railway, by reason of its inherent efficiency in handling certain types of shipment, in every case where the railway quotes a lower price than any other mode, then everybody who gets the low price is, by your definition, a captive shipper?

Mr. OLSON: No.

Mr. GORDON: You stated this. It is absurd, surely.

Mr. OLSON: No, Mr. Chairman, I never intended that.

Mr. GORDON: Is that not the meaning of it?

● (5.55 p.m.)

Mr. PICKERSGILL: I wonder, sir, if Mr. Olson will permit me to say a word. He left out the essential word, it seems to me. He read it but in his elaboration he left out the essential word. A captive shipper is not an objective person at all, he is a subjective person. He is the person who asks to become a captive shipper.

Now, if the farm machinery people are now paying class rates, then I think there might be a presumption that they would be captive shippers. I am perfectly certain that the International Nickel Company is not now paying class rates and, therefore, almost certainly will never ask to become captive shippers and therefore under the definition of this bill they cannot be captive.

It is not merely the fact that there is no other way of transporting your goods but it is also the fact that you go to the commission and ask them to establish the rates that make you a captive shipper under this definition. If you think you have enough bargaining power to get a better rate than the maximum rate, you will not go near the commission.

Mr. GORDON: Mr. Pickersgill, you will recall also that it says distinctly in the bill, "if he is dissatisfied with the rate applicable", so he has to come forward and say he is dissatisfied. It is very carefully defined there. It says, "...there is no alternative, effective and competitive service by a common carrier other than a rail carrier or carriers or a combination of rail carrier may, if he is dissatisfied with the rate applicable...", and so on.

Now, I do not know whether you smoke or not, but I will bet you a box of good cigars that International Nickel are not going to come forward and say they are dissatisfied with their rate and ask to become a captive; nor will the potash industry.

Mr. OLSON: He has a point that I am trying to get clarified, Mr. Chairman, and one that has been missed by both the minister and Mr. Gordon. I would like

to have some way of determining what the rates will be, that is, what the maximum allowable rates will be with the application of this formula before it is passed.

Mr. GORDON: They will be the rates that will move the traffic.

Mr. OLSON: I have just one other question.

Mr. PICKERSGILL: I think I have understood correctly what Mr. Olson is now asking. He wants to know what the maximum rate would be under this law for certain commodities, before the bill is passed. Well, I say that it is impossible, without doing great damage to the bargaining position of the railways, to give that information unless we know for certain in advance that the shipper is going to ask to be classed as a captive shipper. That is why, in an endeavour to try to provide the maximum amount of information, the government has offered to try to get the information with respect to people who are now subject to the maximum rates. Quite frankly, I do not believe that anybody who has already been able, under the existing regime of controls, to get a better rate than the maximum rate is going to identify himself as a captive shipper.

Mr. OLSON: How can you know at the present time, Mr. Pickersgill, whether these so-called class rates bear any relationship to the formula that is here now? We have no way of knowing whether a class rate that the railways may impose on a certain commodity is 150 per cent plus the variable costs. We have no way of knowing that at the present time.

Mr. PICKERSGILL: I would suggest that we be given typical examples of people who are now paying those rates. If we are given those typical examples then we can look at them, but as long as we are just fanning the air with no examples I do not know what we are going to ask for.

Mr. OLSON: Mr. Chairman, I would like to ask just one more question. I see I am not getting anywhere, anyway.

Mr. PICKERSGILL: I was going to say that I think we should adjourn on that note.

Mr. OLSON: I would like to ask one question before we adjourn. A few moments ago Mr. Gordon brought in another term, something he called "market competition", and indicated that this was something different than competition from other carriers. Are you suggesting, Mr. Gordon, that your interpretation of the competition that is involved in applying the formula under section 336 would include this so-called market competition as opposed or in addition to competitive carrier competition or competition from other carriers?

Mr. GORDON: I am not sure but I do not think that covers the question.

Mr. MACDOUGALL: I think what he is suggesting is that market competition will act to set rates lower than the class rates but that is not necessarily the argument that the man will bring before the commission to show that he does not have that type of competition and therefore he is a captive. He will be coming to say: "I do not have any other effective competitive service by a common carrier. That is why I am captive, not market." He would not have to come before the commission unless he wanted to, though. If the market is

sufficiently strong to enable him to get something less than the class rates, as the minister said, then he is probably not going to come at all.

The CHAIRMAN: I have two short matters before we adjourn. I had intended to adjourn at 5.30 and come back at 8 o'clock. It is now 6 o'clock. Do you wish to adjourn until 8 o'clock or come back at 8.30?

Some hon. MEMBERS: 8 o'clock.

The CHAIRMAN: 8 o'clock. Now, I have another matter. In order to give the committee some indication as to the dates that have been set for hearings which have been confirmed, the following organizations have confirmed their attendance and presentation of briefs on the dates indicated, other than the CNR who will be here today and tomorrow if necessary.

Monday, October 17 at 10.30 a.m. the British Columbia Federation of Agriculture.

Tuesday, October 18, the Wheat Pools of Alberta, Saskatchewan and Manitoba.

Wednesday, October 19 in the afternoon, a very short brief from the Canadian Manufacturing Association.

Thursday, October 20 and Friday, October 21, if necessary, the brief of the Canadian Pacific Railway.

Then we have a gap to fill in but on October 26, Wednesday afternoon, a short brief of the Federation of Mayors and Municipalities.

Thursday, October 27, the National Farmers Union.

We have a tentative date that has yet to be confirmed that on November 2, Mr. Molgat, the Leader of the Opposition in Manitoba, has a brief that is to be presented.

Mr. ROCK: Mr. Chairman, will the present Board of Transport Commissioners for Canada appear here?

The CHAIRMAN: I see no reason why they should.

Mr. ROCK: I am very serious in my intention about trying to give the present board more power in respect to grade crossings but I would like to know more legal facts about it. I think they are the only people who can give me this information.

The CHAIRMAN: The present board is going to be absorbed in the new CTC if it is passed. Perhaps you can deal with the amendments when we go through it clause by clause, or by asking some questions of the minister while we are discussing the bill.

Mr. PICKERSGILL: If I might just intervene, I feel sure that the Chairman or the Secretary would be very glad to talk the matter over with you, Mr. Rock. There will be a time, generally.

Mrs. RIDEOUT: I move that we adjourn this meeting.

Mr. SHERMAN: I second the motion.

The CHAIRMAN: Does the motion carry?

Motion agreed to.

The CHAIRMAN: I would point out to the members that we do have time tomorrow for the CNR if we are not finished with them this evening.

EVENING SITTING

THURSDAY, October 13, 1966.

● (8.15 p.m.)

The CHAIRMAN: Order.

Mr. SHERMAN: I have one question to ask because much of the ground in which I am interested has already been gone over quite thoroughly by others. However, at the risk of being repetitive I would like to dwell for a moment or two on this question of captive shippers.

From the point of view of the west at least this seems to be the nub of the new bill and the nub of the anxiety about the question. I wondered if I might ask Mr. Gordon, is not the supposed protection of the bill, sir, rendered somewhat meaningless by any definition of captive shippers which identifies them as only those shippers paying class rates? When you think in terms of 1964 tonnage and the fact that only one per cent of 1964 tonnage moved under class rates, this leaves us with an area of 99 per cent that is not covered and not affected by this legislation.

Mr. GORDON: I should be the last to try to make any legal interpretation of the bill. I am not competent to do that. Just before the adjournment we were looking at the definitions of section 336, which is on page 42, and as a practical person reading the English language, it seems to me that the way in which the bill was written provides every possible protection you could think of.

The bill allows any person who is dissatisfied to take the necessary action to have himself identified as a captive shipper. The facts speak for themselves in that case. It seems to me the bill gives ample opportunity to anyone to be heard and that is all that could be expected.

Mr. SHERMAN: Unless he can meet specific criteria he cannot be classified as a captive shipper.

Mr. GORDON: Yes, that is true. But if he fails to meet the criteria he does not need the protection of the bill. He does not need the protection spelled out here.

Mr. SHERMAN: This once again brings us back to the question of the definition of captive shippers, sir. There is, as you will appreciate, a feeling in some parts of the country, notably in the west, that it is reasonable to expect from this legislation that a certain amount of relief will be granted shippers who consider that they are carrying a disproportionate share of the freight burden in Canada. In their estimation, they are captive shippers.

It seems to me that if in terms of 1964 tonnage, class rates represented only one per cent of Canadian traffic, this particular provision of this legislation is in fact saying that the other 99 per cent does not matter. The other 99 per cent is not taken into consideration at all. All we are concerned with is the one per cent coming under this rather narrow interpretation of class rates and captive shippers.

Mr. GORDON: I do not think I could comment on that, or should comment on that, after all this is government legislation. The government has given, as we know ourselves, tremendous thought to this and they have produced the formula which they think adequately protects the class and kind that you are thinking of. All I can do is to say, as a railway, looking at the manner in which the bill is drafted, we can assure the Committee that we think it is workable, and we think it is fair. I do not think that there is much more that we should

say about the legislation than that. The legislation after all is a declaration of government policy, and government policy has been based on a very, very careful examination of the interests of the class that you are referring to.

Mr. SHERMAN: May I ask you this question, sir, or perhaps it should be directed to the Minister. The Minister has certainly asked, and if I am not misquoting you I think you asked earlier today, too, for some concrete examples of captive shippers. Could I ask you or the Minister for some concrete examples of shippers paying class rates? The Minister has said that he does believe that INCO and companies of that calibre are paying class rates.

Mr. GORDON: It depends again on what kind of class rates, does it not?

Mr. GARDINER: We have a complete tabulation of shippers paying class rates, not here, we have it in Montreal, we arranged to have it tabulated in anticipation of queries, not knowing what they would be. I saw the document before I left. There are 575 pages of it, depending on how you want it. We have a complete tabulation of every shipper that shipped any tonnage in the year 1965 by Canadian National, local and interline and at class rates. We have that.

Mr. SHERMAN: This document is 575 pages long, sir?

Mr. GARDINER: IBM pages. Yes, sir.

Mr. SHERMAN: And yet it represents only one per cent of the gross tonnage? Well, I hesitate to suggest that a document of that length be made available. I would not suggest that that be made available to the committee, sir, but I was wondering whether, on the basis of a tabulation of such shippers paying class rates you, sir, or one other member of the panel could tell the Committee how these class rates compare in a given area with the costs of the railway.

Mr. GARDINER: I could answer the question you asked whether we could give you names of shippers. That part I can answer readily. We have that.

Mr. SHERMAN: Could you give us the names of specific shippers with the information showing how the class rates that they are paying compare with the cost of the railway?

Mr. GARDINER: In that part you get back into our—

Mr. GORDON: And moreover, on this point, I do not think we should reveal information of that kind. That is the business of our customers, and I do not think our customers would necessarily appreciate being listed in a document in regard to their freight rates. Maybe they do not want it known. We are doing business with customers. That is their business, and as long as they are happy with the service and the relations that they have with the railway I do not think that we should be required to expose details of their business.

This legislation gives an opportunity for anybody who is dissatisfied to appear before the Commission, but apart from that, in a discussion of this kind, I think our customer is entitled to privacy, to his own situation. He does not want the railway to publish all over the country what rates he is paying. That is private to his business. That may be competitive information in his trade that he does not want released. There seems to be an assumption that a great mass of shippers are clamouring for protection. We are not aware of that at all. It does not exist as far as we are concerned. There are always individual instances,

of course, that is part of our business, but we are in constant negotiation. Every day we are talking to a customer, just the same as a customer of a bank, or a trust company, or the customer of a steel company, or anything else, and yet no one would dream of requiring a steel company to reveal their costs in terms of what they are quoting to a customer; nobody would think of it.

Mr. SHERMAN: But with all respect, sir, it is our business to ensure that there is not a great mass of shippers clamouring for protection six months or eight months from now when this legislation is enacted.

Mr. GORDON: You have provided in the bill which you are going to approve, I hope in due course, a means to make certain you are protecting the shipper's interest. You are giving him in the bill the machinery whereby he can be heard if he is dissatisfied or disgruntled in any way.

First of all, if he is dissatisfied, the first thing he will do is talk to us. He is our customer. As I say, we have not got a great mass of people clamouring for attention because they are dissatisfied. This legislation gives him recourse if he does not get satisfaction from us—and we would be very sorry if he did not because it is our business to satisfy our customers. But if he cannot get satisfaction from us and there is apprehension in this Committee that the railways are not going to act in an ordinary, decent way in dealing with customers, then there is a place for him to go and it is set out very carefully here by the government. I do not mind saying that in our opinion, I think the legislation has overdone it. I do not think there is any need for this extraordinary interest in respect of certain types of customers; I do not think it is necessary. But, however, the government thinks that it is. Parliament in due course thinks that it is and we will work in that environment. When I hear the witness, as an interested party, namely, the railway, providing a service I can assure you that as far as I have been able to judge quite honestly the bill more than provides for the protection that you seem to think is necessary.

● (8.25 p.m.)

Mr. SHERMAN: Well, I appreciate your explanation, sir, and I would like to say that I also appreciate the Minister's. I was present for it this afternoon and I thought that the Minister gave a very lucid explanation of the ethics involved in this question, but you will appreciate too the anxiety that has been expressed by other western members of this Committee and myself. It is not arbitrary—it is not collected arbitrarily—we represent a point of view which can only be described as anxious.

Mr. GORDON: Quite so, and I appreciate that. That is why I am trying to give you our point of view, to relieve that sense of anxiety. I think you should have it; I do not criticize it at all. I am trying to explain in the ordinary day-to-day operation of the railway that our first consideration, our very first consideration, as a business organization is to satisfy our customers. We are not fighting with our customers. Every time a customer comes in with a complaint about anything our first desire is to apologize if we are at fault with regard to a claim or something of that sort or work out a deal with him which will satisfy him. We are working out deals every day of the week; that is our business.

Mr. SHERMAN: You do not feel then that the position of the individual shipper will be inhibited or compromised in any way under this new legislation in so far as working out a satisfactory deal is concerned. You are satisfied that it is—

Mr. GORDON: As I read the legislation, and as I have been educated and informed by my technical officers, I am honestly of the opinion that any type of shipper through the operation of this legislation has a fair and honest opportunity to be heard if he is disgruntled. If he is not able to get satisfaction from the railways there is an opportunity for him to go somewhere else and get a ruling.

Mr. MACMILLAN: May I add just a word to that, Mr. Sherman. You are probably familiar with subsection 16 on page 46 which is the last section of this maximum rate provision. If you read that in association with the facts that these rates are frozen for three years, then, you will find it provides that as soon as practical after the expiration of five years from the coming into force of this section the commission shall hold such hearings as are deemed expedient and shall report to the governor in council upon the operation of the maximum rate provision, so that one can anticipate there will be a three year hiatus when the present situation prevails and then there will be a two year period during which time the mechanics of the proposal will be tested. If they fail to provide the protection which is concerning you presumably the commission will so report to the governor in council and it will be changed. I would think that that is the reason for the provision.

The CHAIRMAN: Well, thank you very much, sir; that is all.

Mr. BYRNE: I have a couple of questions of Mr. Gordon. The Crowsnest rates have become less taboo in the House and I would like a little information regarding Crowsnest and related rates. On page 11, Mr. Gordon, of your summary, under Section (c), there is a categorical statement "uneconomic grain traffic".

Now, first I would like to know what are related rates, that is, grain rates that are related to the Crowsnest rates.

Mr. MACDOUGALL: Well, I think I can answer that. The Crowsnest rates themselves basically are the rates on grain and flour from western Canada points to the lakehead. The related rates are the other rates that are related to that, such as the rates on all the other grain products, screenings, and things of that kind and the rates from the western Canada to the western seaboard to Churchill. Those rates are all related to the so-called Crowsnest rate which is from western Canada to the lakehead.

Mr. BYRNE: And the screenings would go to Churchill at the same rate as the Crowsnest.

Mr. MACDOUGALL: And to the west coast.

Mr. BYRNE: And to the west coast.

Mr. MACMILLAN: And you remember when rape seed came along first we had a case about this and it was decided that rape seed should take the Crowsnest grain scale.

Mr. BYRNE: As I said you make the categorical statement "uneconomic grain traffic". Did the MacPherson Royal Commission find that there was a loss factor in the grain rates? When you say uneconomic does that mean there is a total loss or—

Mr. MACMILLAN: They found that they were a burden on the railway—the MacPherson Commission found this.

Mr. BANDEEN: The variable costs found by the MacPherson Royal Commission exceeded our revenue we received from it by approximately slightly over \$4 million in the case of the Canadian National.

Mr. BYRNE: The Canadian National made representations in this matter to the MacPherson Commission more or less on the same basis as the Canadian Pacific Railway. In the case of the Canadian Pacific it seems to me they showed a net gain of some \$500,000 but you had \$420,000.

Mr. BANDEEN: I do not remember the exact figure for the Canadian Pacific but in our own case we had a loss of approximately \$4 million—I think it was slightly over that.

Mr. BYRNE: A loss of \$4 million?

Mr. BANDEEN: Yes.

Mr. BYRNE: And this was accepted by the commission?

Mr. BANDEEN: This was the commission's findings.

Mr. BYRNE: And you were using the same costing methods as the Canadian Pacific?

Mr. BANDEEN: Yes.

Mr. BYRNE: Could you tell me, doctor, what percentage of the western freight movement was made up of grain which comes within the Crowsnest rates?

Mr. BANDEEN: If you will just wait for a minute, I think we have it on the documents that were given out to you by the Department of Transport at the hearing last week. They gave a series of mimeographed sheets out and I think it contains that information.

There was an exhibit prepared for the Standing Committee on Railways, Canals and Telegraph Lines and it was handed out by the department officials last week at the hearing.

Mr. GARDINER: On page 18, under a comparison "By Revenue Carload Rate Traffic moving under different rate classifications" it is western region to western region. This is the region in which the Crowsnest—

Mr. BYRNE: What year?

Mr. GARDINER: For the year 1963, 36.4 per cent of the revenues were earned by all railways in the western region.

Mr. BYRNE: Not the revenue, but rather the percentage of the tonnage.

Mr. GARDINER: If you want the tonnage—in the way bill analysis for the Board of Transport Commissioner in the year 1964—the tonnage would be approximately 20 per cent of the total tonnage covered by the way bill analysis. That would be intra Canadian traffic—20 per cent of the total tonnage.

Mr. GORDON: Mr. Gardiner, was this document filed with the Committee?

Mr. BANDEEN: The first document we were referring to?

Mr. GORDON: The one you are quoting from.

Mr. GARDINER: We did not file it.

Mr. GORDON: No, the other one.

Mr. GARDINER: The other one was filed, yes.

Mr. GORDON: It was filed in the Committee, was it?

Mr. GARDINER: It was filed by the Department of Transport at their appearance last week.

Mr. GORDON: I did not think you got anything filed. That is what I am worrying about, John. Was it filed then?

Mr. PICKERSGILL: It was given to the clerk of the committee some time ago to distribute at the last meeting.

Mr. GORDON: Well, I am only saying for the advantage of the Committee, has the Committee got the document? Is it on their records?

Mr. PICKERSGILL: Oh, yes.

Mr. GORDON: All right, thank you. I did not assume that anyone had read it, but I just wanted to know if it was available.

Mr. GARDINER: In 1964, 20 per cent of all the tonnage—handled by the Canadian railways—

Mr. BYRNE: Intra-Canadian?

Mr. GARDINER: That is right, including others like P.G.E. and so on, 20 per cent of the tonnage covered the grain rates, the Crowsnest grain rates traffic?

Mr. BYRNE: And what percentage of the gross income?

Mr. GARDINER: The percentage of the gross income of the western region roughly 13.2 percent.

Mr. BYRNE: Just a moment, Mr. Chairman. I had a question earlier today of Dr. Bandeén that he maybe has the answer for.

Mr. BANDEEN: Yes, I believe the question asked was what per cent of the \$295 million unrelated charges was applicable. Well, 41 per cent of that \$295 million is applicable to maintenance of way, and this amounts to 13 per cent of the total expenditures of \$952 million.

Mr. ALLMAND: Mr. Gordon, in your summary at page 9, under "Uneconomic Passenger Services", you have a suggestion to change in Section 314 (i) subsection 7, the words 'not later than two years' to 'not later than three months', and I want to ask you—this is for the discontinuance of the train—if you think that three months is sufficient time for a community and a group of men who have been working on the railway for years. Let us say you have a railway town or a town that depends to a great extent on railway, and there is a discontinuance of service, if you have just three months after the decision to act, it would seem to me that this would not give them sufficient time to re-adjust and to plan for some other economic interest for both the men and the community. We had the Freedman Report which projected much more flexibility in adjusting to changes, both technological changes and changes of all kinds in different types of things like this, and I want to ask you why you think three months would be enough for both men and communities to adjust to discontinuance of trains.

Mr. GORDON: Well, a short answer is that three months is three months after an awful lot of work has gone on ahead. We have done an awful lot of

conditioning before we arrive at the point of reaching the board at all, and everybody affected or concerned, long before we get to the question of the actual application, have been fully informed and the necessary adjustments provided for. By the time we get down to actually asking for permission to abandon, in my opinion, it can become more as a formality.

Mr. ALLMAND: Do you know that some communities fight this right up to the last minute and they do not know until a decision has been brought down whether they are going to have the service or not.

Mr. GORDON: Oh, yes, but if they fight it, it is because they will fight it no matter when we bring it down. They have got to make a token resistance.

Mr. ALLMAND: From experience in the past, do you really feel that three months is a fair amount of time to give a community, and as I say a lot of men that might be involved in a discontinuance of service, to readjust.

Mr. GORDON: Yes, because all the arrangements, all the adjustments that will flow from the abandonment have already been well provided for.

Mr. ALLMAND: By the railway or by the people affected?

Mr. GORDON: They have been interviewed and they know what is going on, and the board is fully informed of it.

Mr. MACDOUGALL: Just let me add this, Mr. Gordon. Our experience under the present legislation for the discontinuance of passenger train service is that in most cases three months would be a very long time. We now sometimes get decisions on that type of an application that take effect within thirty days, sometimes within sixty days, not very often much longer than that, and the reason is that by the time you are discontinuing the service, you are down to really the final bare essentials. You really have not very much by way of service left. There is no problem in reallocating the employees that are concerned to other work. They go on the spare board or go into other works in their own promotion territory, and in the communities, by that time, the traffic has gone to other modes of transportation and the reason we are allowed to abandon or discontinue the services is that there is really no requirement for it. So there is really very little to adjust in the passenger service of that kind. The track still remains there; the freight service is still operated. We are just taking off the last remaining passenger trains the final fag end of the passenger business. The normal practice at the moment is to give much less than the three months' notice.

Mr. HYMMEN: Under the suggested subsection 6, the abandonment could be allowed for four different reasons, a, b, c or d, and one of them is economic; (b) deals with alternative transportation services the third one and the fourth one deal with other types of things, too. I was thinking that it could be a combination of all these things. Maybe the new or alternative route might be a projected route, maybe it may be an uneconomic line, but the alternative route is not finished yet and will not be completed for three months or something like that.

Mr. MACMILLAN: I would like to add just a little bit. If I understand your point, I would agree entirely with you on your premise, but I think your premise is incorrect because if there is need for the service, even though it is uneconomic, even though we would like to get rid of it, if the community in fact

is dependent upon such service, or there is any real justification for it, the other section of the bill would take over and the Board would find that it is uneconomic but that service ought to be maintained in the public interest and would pay us a subsidy in respect of it. Our experience is, as Mr. MacDougall says, that these passenger services, which you talked about discontinuing, are invariably in territories which are more than adequately served by highways, buses and private vehicles, and it is only as a last resort when we have tried every means of trying to coax or coerce people back to our passenger trains that we do get to the point where we have any hope of obtaining an order for discontinuance of passenger service. And I frankly do not know of any place where that rule would not apply today, a place or location where we could expect to discontinue a service which has not been abandoned by the public long since.

Mr. ALLMAND: No, but if it was a community which was isolated, then—

Mr. GORDON: Now the bill here has a point which says that 'if the commission determines that the operation of an uneconomic train service should be discontinued'—

Mr. ALLMAND: That is right. It might be decided that it should be discontinued in a year to give time for the other—

Mr. GORDON: It still has that right to do that, but the point I am making is that the commission in its judgment has to find that it should be discontinued. Now, the commission may also find that it is uneconomic and it should be continued, and if it should be continued, it is continued, and other forces come into play where we pay the subsidy. But by the time the commission says it should be discontinued, then it is in such state that there is likely to be—I mean by that time everybody has been informed, everybody knows about it, and it is just dead, that is all. There is no point in waiting for two years in that case.

Mr. ALLMAND: From the legislation it appeared to me that they could say it should be discontinued, but this would take effect in a year's time or a year and a half, or—

Mr. GORDON: The commission as I understand it has power to do that. Does it not?

Mr. ALLMAND: You would not object to that.

Mr. GORDON: We would argue against it, yes, but we would have to carry out their orders.

Mr. MACDOUGALL: I think if it is needed at all in the future it should be put under the section that Mr. MacMillan referred to which would allow for the continuance of the subsidy being paid. We think if they have decided now that there is no need for it any more then they do not need to have the thing hanging around for six months, a year or two years. They can do what is being done today; they can let the thing go in 30 days or 60 days. We suggested 60 days.

Mr. HORNER (*Acadia*): In relation to the question asked by Mr. Byrne a while ago, it was stated that 20 per cent of the freight moved by the CNR was rolled under the statutory Crowsnest Pass rates. Am I right correct in that assumption?

Mr. GARDINER: Twenty per cent by the Canadian railways—

Mr. HORNER (*Acadia*): By the Canadian railways.

Mr. GARDINER: —including the CNR.

Mr. HORNER (*Acadia*): Including the CP also. Then, 13.2 per cent of the revenue is derived from moving 20 per cent of the freight. What would you say the grain moved at? Would it move at 30,000 pound lots?

Mr. GARDINER: 55 tons; that would be 110,000 pounds.

Mr. HORNER (*Acadia*): That would be very close then to 60,000 pound lots. Now, according to Dr. Bandeen's slide the cost of moving freight per ton mile depreciates greatly as the load per carload increases. Do you follow me? And so, it is relative and could be expected that 20 per cent of the freight moved under the statutory grain rate should bring, because of the weight which is moved less than 20 per cent of the revenue. Am I correct in assuming that?

Mr. GARDINER: There is one factor, sir, that you have left out. You mentioned tonnage and revenue but there is an additional factor you have to bring in, and that is the length of haul. The grain moves at a much greater length of haul. For example, the average for the year 1964 was 857 miles.

Mr. HORNER (*Acadia*): I intended to bring that in, Mr. Gardiner, and to note that in Dr. Bandeen's charts this morning, there was no comparison, or no relatively between the length and the amount. In other words, 20 ton moved 107 miles did not double when it was moved 214 miles. The cost of moving it did not double when it was moved 214 miles. In other words, there is no real relationship; there is no scale that one can draw.

Mr. GARDINER: What you are saying is that when the distance doubles the cost does not double. We agree with that.

Mr. HORNER (*Acadia*): That is what I am saying, yes.

Mr. GARDINER: It does not follow that when the distance doubles the cost remains static. It may increase by a ratio of 1.80.

Mr. HORNER (*Acadia*): Oh, yes. It increases, but not in what you could call a scale rate. Every time it doubles it does not increase by 1.8? Do you know what I mean?

Mr. MACMILLAN: We have not asserted that.

Mr. HORNER (*Acadia*): No, you have not asserted that but I want to establish for the record that there is no scale that can be asserted on this degree.

Mr. GORDON: Well now, wait a minute. I would not let that last comment go. You say there is no scale which can be asserted. That is not so. We assert it by our own examination, do we not?

Mr. BANDEEN: Oh yes there is an increase in cost as the—

Mr. HORNER (*Acadia*): Oh, oh, far be it from me to say that there is no increase in cost.

Mr. BANDEEN: It does not increase proportionately.

Mr. HORNER (*Acadia*): But you suggested—in your charts—that the mileage increased approximately 512 per cent but the cost showed no relationship to that whatsoever.

Mr. BANDEEN: You are right.

Mr. HORNER (*Acadia*): I do not think for one minute it diminishes.

Mr. BANDEEN: As the length of haul increases, the cost increases too, but not proportionately.

Mr. HORNER (*Acadia*): But not proportionately, and this is the point I am trying to make. Now let us go back. Twenty per cent of the first haul, hauled in what I can generously assume would be 60,000—I am taking that extra 5,000 from you—carload lots.

Mr. GORDON: Where does that come from?

Mr. HORNER (*Acadia*): I threw that out. He said 55,000 and I took the other 5,000.

Mr. GORDON: With great respect, I depend on Dr. Bandeen's figures more than yours. Now what is the figure?

Mr. HORNER (*Acadia*): My figures were accurate if you had subtracted the 5,000. I like to deal in round figures.

Mr. MACMILLAN: Sixty tons for wheat, 120,000 pounds.

Mr. HORNER (*Acadia*): One hundred and twenty thousand pounds. You are exactly right and thank you for the correction.

Mr. GORDON: You said 60,000 pounds.

Mr. HORNER (*Acadia*): I said 60,000 pounds, yes. So it is 120,000 pounds.

Mr. GORDON: That is quite a bit of a difference. I would like to get in a poker game with you.

Mr. HORNER (*Acadia*): I erred because I accepted Dr. Bandeen's statement in this morning's report. He said, if you will remember, that 30,000 pounds moves at such and such a rate. He used the words "60,000 pounds" and that is why I said 60,000 pounds. But it is 120,000 pounds I should have been using and I thank you very much for correcting me because I want Mr. Byrne and other members of the committee to bear witness to the fact that if 20 per cent of the freight moved under statutory grain rates in carload lots at 120,000 pounds—bearing in mind the cost analysis laid down this morning—it would be the logical thing to expect that 20 per cent of the freight moving in those carload lots would move at a whole lot less than 20 per cent of the rest. Am I right on that, Mr. Gardiner and Dr. Bandeen?

Mr. BANDEEN: There is one thing I would like to qualify. Normally when we are measuring the work done by the railway we do not use tonnage for the reasons that Mr. Gardiner outlined. Normally we use ton miles as a measure of the work done by the railway. The statutory grain on Canadian railways as to the proportion of ton miles is somewhere between 35 and 40 per cent but unfortunately, I do not have the figure.

Mr. HORNER (*Acadia*): I never asked that question. You do not have to produce that figure.

Mr. BANDEEN: This is a measure of the work which the railway does. It is more representative than the 20 per cent of the ton. It involves the length of haul and the weight, and so your question should be, if western grain represents

37 or 38 per cent of the work done by the railway and it receives 13 per cent of the revenue—

Mr. HORNER (*Acadia*): I will tell you what I have been trying to do. Mr. Byrne, a westerner, had left the wrong impression on the committee records. I wanted to quickly simplify it and correct it, and then proceed to the line of questioning. In order to simplify it and to proceed as quickly as possible I had not gone into the length of ton miles or anything like that. All I had said was this. Let me put it on the record and then we will go on with something else. It is not logical to expect that 20 per cent of freight moving in 120,000 pound carload lots would necessarily bring in 20 per cent of the revenue. Am I correct?

Mr. GARDINER: No. You see, you are still asking me am I willing to accept that if 20 cabs go over to Hull they will bring in as much revenue as 18 cabs that go to Montreal. I would have to say no, it cannot be. The length of haul has to be brought in.

Mr. HORNER (*Acadia*): I do not dispute the length of the haul or anything else. Referring now to your example of cabs, you are not talking about the mileage. You are not talking about the freight haul. I do not know what they go to Montreal or Hull for that cannot be found here in Ottawa.

Mr. GARDINER: If your question, sir, is that if grain moves in 60 ton payload cars—120,000 pound shipments—is the cost of that grain traffic much lower per unit than if it moved at 30,000 pounds, the answer is definitely, yes sir.

Mr. HORNER (*Acadia*): Fine. Then it would be logical to expect that 20 per cent of the freight moved would not necessarily—you can say it might; I do not care—produce 13 per cent of the revenue.

Mr. GORDON: But the real point surely here is that somewhere between 37 or 38 per cent of the workload done by the railways produces 13 per cent of its revenue. That is the simple equation. Am I correct?

Mr. GARDINER: Yes, this is right.

Mr. HORNER (*Acadia*): Well, Mr. Byrne nods his head. I know what a true westerner he is and it is a wonder that he accepts all that; it is just as if he was completely blindfolded. You stated and Dr. Bandeen stated this morning that the length of haul has no exact relationship or scale relationship in proportion to the revenue earned. In other words the exact figure—I do not remember the exact figure—it was five hundred and some times the per cent to the cost acquired, if I may put it that way. You wanted a lovely figure to throw out, 37 to 38 per cent of the work load does so and so. I am not interested in that at all.

Mr. GORDON: We have to be interested in that because that is what we are working with. That is our work load and there is no argument that can get that away from us. We can demonstrate that 37 to 38 per cent of our work load, work done, in terms of what you are asking about is done for 13 point something of revenue. These are facts.

Mr. HORNER (*Acadia*): All the time they give me is ten minutes and I have nearly used it up on a question which I had hoped—

The CHAIRMAN: You have used five of it.

Mr. HORNER (*Acadia*): —to have answered quickly so I could move on to another line of questioning. But I cannot leave this like it is at all.

Mr. BANDEEN: In a commodity which is heavily loading, such as grain, you would not expect the revenue to be proportional necessarily to the work load either in ton miles or tons that the railway has to undertake. In other words, if the commodity took 37 per cent or 20 per cent, you could expect slightly lower revenue than tonnage.

Mr. HORNER (*Acadia*): Quite a bit lower when you suggest and the bill suggests, that 30,000 pounds is the economic figure to use in gauging carload lots. I am not saying it is but this is what the bill suggests. We are moving grain at 120,000 pounds, four times as much.

Mr. BANDEEN: Sometimes costs do not come down proportionately with the weight increases either.

Mr. HORNER (*Acadia*): No. I do not believe for one minute that they would but you suggested that they do. And, you could do a regressional analysis of the situation and I am sure the graph would be going down. It would not upturn at the last 10,000 pounds; it would still be going down.

Mr. BANDEEN: Up to 120,000 pounds.

Mr. HORNER (*Acadia*): Up to 120,000 pounds yes. Up to the maximum load it would be going down. As soon as you exceeded the maximum load feasible then it might go up quite a bit.

Mr. Gordon, do you believe—and I want you to be quite frank because I want to wind this question up and get on to my other line of questioning—

The CHAIRMAN: Later on. Not after this one. You have already extended your questioning to fifteen minutes, and I think this will have to be your last question, Mr. Horner. I hope you are not disappointed.

Mr. HORNER (*Acadia*): I have been disappointed all day. I have more patience than you have, and I will be here.

Mr. Gordon, do you believe the CNR today—not yesterday, or three years ago or at the time of the MacPherson Commission—is losing money hauling grain? I have a supplementary to this, Mr. Chairman. I hope you will allow me to proceed.

The CHAIRMAN: Let us hear the answer and perhaps I will let your supplementary go.

Mr. HORNER (*Acadia*): I hope you do not cut me off.

Mr. GORDON: Losing money on what business?

Mr. HORNER (*Acadia*): On hauling grain under the Crowsnest pass rates.

Mr. GORDON: Yes, it is.

Mr. HORNER (*Acadia*): It is.

Mr. GORDON: But it depends on what criteria you use. I am talking about all end costs.

Mr. HORNER (*Acadia*): I am talking about variable costs because that is all the bill says that must be covered.

Mr. GORDON: All right. But on your own statement a little earlier today you were trying to say that anything carried at variable costs with a little wee bit of a margin was not worth handling.

Mr. HORNER (*Acadia*): I did not say that. I said it was worth handling and you said it was not. I was trying to point out that they had earlier said that it was.

Mr. GORDON: Quite honestly, I would say in connection with the haulage of grain that it does not return to the railways the return for the work expended in anything like it should.

Mr. HORNER (*Acadia*): My ranch does not make me the amount of money that it should, but I asked you if it was losing money?

Mr. GORDON: But you have a means of supplementing it by coming down here and we have not.

Mr. HORNER (*Acadia*): But the ranchers that I represent have no means and those are the people I am here for. There are thousands of farmers that I represent that have no means of supplementing their income.

Mr. GORDON: There is nothing in this bill that suggests that the freight costs in regard to moving grain is going to be increased.

Mr. HORNER (*Acadia*): Nothing at all other than the three-year study and a subsidy—or the initial erosion of the Crowsnest pass rates.

Mr. PICKERSGILL: I cannot allow that remark to pass. There is going to be no—

Mr. HORNER (*Acadia*): Strike this off my time!

The CHAIRMAN: Your time has passed already, Mr. Horner.

Mr. PICKERSGILL: This bill does not provide or contemplate any erosion whatever of the Crowsnest pass rates.

The CHAIRMAN: Mr. Horner, I will put you on the list.

Mr. HORNER (*Acadia*): Let me put just one more question following my supplementary. Mr. Gordon said that they were losing money under the Crowsnest pass rates. If they are losing money, Mr. Gordon, would the railroad under today's conditions be financially better off if it had absolutely no grain to move at all?

Mr. GORDON: It would not be financially better off for the simple reason that we have the plant built.

Mr. HORNER (*Acadia*): I am through, Mr. Chairman.

Mr. GORDON: Oh, no; you cannot stop at that. You have to accept my qualification. We have the plant built and the overhead cost of that plant has to be met. If you had said to me that you had suddenly found a situation where the railway had not been built, would we rather build the railway to move the grain, I would say, no. But, as of now, we have the plant built. The costs are there and because of that the more grain we handle the more contribution we get to reduce the loss.

Mr. HORNER (*Acadia*): In other words, Mr. Gordon, you are saying that the grain handling helps pay the overhead cost.

Mr. GORDON: That the grain handling, yes—

Mr. HORNER (*Acadia*): You bet he did!

Mr. GORDON: Wait a minute. I did not say anything of the kind.

Mr. HORNER (*Acadia*): You said—and I want to be absolutely clear, Mr. Gordon—in other words, the grain handled by the railroads helped pay the overhead costs.

Mr. BANDEEN: I think what Mr. Gordon was referring to was that certain of our costs involve equipment, box cars, which we own, which clearly is variable with grain because we use them to carry grain.

Mr. HORNER (*Acadia*): What about the cost?

Mr. BANDEEN: Well, if next year we were to be without any grain we would still have these box cars. The box cars are clearly variable costs and related to grain. In calculating whether grain is profitable or unprofitable there is very little of the capital cost of trackage included in variable costs. There is the maintenance cost of trackage and we would eliminate the maintenance cost if we eliminated grain because in a great many cases the lines carry very little else.

Mr. HORNER (*Acadia*): In other words, the grain handling, Mr. Bandeen, pays for more than what the variable costs would be.

Mr. BANDEEN: I really cannot say. I have not seen a detailed cost study for that for the year 1965 and I really do not know.

Mr. HORNER (*Acadia*): I think that Mr. Gordon intimated that and I will read the record when it is printed.

Mr. GORDON: You will find that he did not.

Mr. HORNER (*Acadia*): You bet he did! You bet he did!

Mr. ROCK: Mr. Chairman, before Mr. Horner made his exposé quite a few of the members of the committee were discussing captive shippers. I refer you to page 42, clause 336. I would like to know, Mr. Gordon, because of the way this clause is written, do you think it is ambiguous? First of all, on the opposite page there is an explanatory note, which reads as follows:

A shipper who has not competing transportation facilities available to him. . .

Now, if you read the article it could be interpreted that many systems of railway could be in the area and, if so, they would all have the same rates. Therefore, if they were charging the same rates the shipper could claim that he is a captive shipper. This is due to the way it is written. You can read it one way and it may mean one thing; you can read it another way and it may mean an actual captive shipper, with only one route that the carrier can pass. Would you agree that it is ambiguous?

Mr. GORDON: The question is whether I think that section 336, as written now, is ambiguous. It is not ambiguous to me.

Mr. ROCK: Do you not agree that for a layman these words, "A shipper of goods for which in respect of those goods there is no alternative, effective and competitive service by a common carrier other than a rail carrier or carriers or a combination of rail carriers may, if he is dissatisfied—" are ambiguous?

Mr. GORDON: Well, all I can say is that it is not ambiguous to me. I do not know whether or not it is ambiguous to a lawyer but I am just a fellow who knows a little about the English language and it is quite clear to me.

Mr. ROCK: Maybe I am not so well informed on the English language but it seems to me that it could be interpreted in different ways because when this is embodied in the main volume of the Railway Act this explanatory note will not be written in the Act.

Mr. MACMILLAN: Mr. Rock, there may be two railways which are not competing against one another so the fellow is automatically a captive.

Mr. ROCK: Exactly. It may be that they may have the same rates in the area. However, in this case here I believe it is written in such a way that it is not supposed to mean that there are two railway systems competing in the same area and yet they may have the same rates. But it could be interpreted as such.

Mr. MACMILLAN: The protection there is that the railways, in every instance of which I have any knowledge, actually are competitive; they do compete for traffic, and strenuously.

Mr. ROCK: Would you say, then, that this paragraph means there is actually one line of possibly two or three rail carrier services but the person would have to ship from one point to maybe three other points to get through that area, possibly with two railway systems?

Mr. MACMILLAN: I have thought of it being that, but the opportunities would be confined to one railway and the traffic might move over more than one railway to get to the destination. That is my interpretation of the section.

Mr. ROCK: Do you feel that this could be interpreted in some other way also?

Mr. GORDON: If it were interpreted in the way you are saying, what harm do you think it would do?

Mr. ROCK: It would give the supposed captive shipper on any of the lines across Canada a right to complain. In other words, anyone can claim to be a captive shipper.

Mr. GORDON: But what is wrong with that?

Mr. ROCK: There is nothing wrong with it; I just want to know whether you are aware of that fact. According to the explanatory notes on the side it actually means where there is no other alternative whatsoever.

Mr. GORDON: I see what you mean, now.

Mr. ROCK: And yet in the paragraph it could be interpreted that there could be two or three lines in the area and the man could claim that he is a captive shipper.

Mr. GORDON: I do not see anything wrong with a law which gives anybody the right to be dissatisfied and claim that he is a captive shipper and to go

before the commission with his claim, because he will be straightened out very soon if he is not a true captive shipper. But if he feels that he is a captive shipper, I think it is only right that he should have an opportunity to find out.

Mr. PICKERSGILL: If I may say so, as the author of the bill, I do not think there is any ambiguity at all.

Mr. GORDON: Neither do I.

Mr. PICKERSGILL: Anyone who is served only by railway can claim he is a captive shipper. It says perfectly clearly, "by a common carrier other than a rail carrier or carriers or combination of carriers". There might be 50 railways there and he could still claim he was a captive shipper. There has to be some other mode of transport before it is competitive. I do not think there is any doubt that that is what it means. If there is any doubt as to what it is intended to mean; if there is any doubt about the clarity of the language, I will ask that it be clarified so that it is clear. I do not think it would be reasonable at all to say because there was a C.P.R. line and a C.N.R. line, they would both obviously apply the same general kind of criteria and on that ground the board would say he was not a captive shipper. He is a captive of the railways and that is what we are talking about.

Mr. FAWCETT: Mr. Chairman, I wanted to follow up a little on what Mr. Allmand mentioned which had to do with branch lines abandonment. I realize that possibly I cannot get a specific answer on this, but I would like to have a general idea of what is involved as far as these branch lines that are proposed for abandonment are concerned, with respect to employees. What would the service on these lines be as of now? Would it be tri-weekly, once a week or daily? Would it be way freight service or mixed in service?

Mr. MACMILLAN: We think we have the material, Mr. Fawcett, to answer that question.

Mr. MACDOUGALL: Perhaps I could answer that, Mr. MacMillan. We have looked, Mr. Fawcett, for instance at the rail line rationalization that is involved in the network system in western Canada and looked at the rail lines there that would be candidates for abandonment. The employees involved there would be mainly the section forces, the floating gangs that might be doing work on that trackage and the agents on the line. Since these lines are reduced to an "if, as and when" type service, the operating personnel would just be absorbed in their ordinary promotion district. They are on that district now just doing these turns "if as and when" the service is required. It would mean maybe a turn a week or something that is now required would be cut off. That fewer number of miles would be available for those operating crews.

But on the non-operating personnel, the section forces involved and the floating gangs involved, our figures show that on that trackage and using our average of three per cent for attrition per year we could absorb all these employees without any of them laid off within a three year period. Our attrition factor for three years would enable us to absorb all these employees. So we do not see any difficulty in handling the labour force that may be affected by these abandonments. We do not see any reason why these men should be without work. The 15 agents in this group are urgently wanted in other areas. There is no problem in putting those men to work. We have work for them, and

lots of it. We think that the total numbers involved here will only go to a total of 133 men on the winter schedule and 145 on the summer schedule and we believe they can very easily be handled under the ordinary attrition of work force that we have available to us. We think that we can handle the changeover without any real discomfort to those people.

Mr. FAWCETT: I would imagine that on some of the shorter lines, the tenance of way would be carried out under the floating gang system.

Mr. MACDOUGALL: There is a floating gang of seven men in Gravelbourg, for example. I do not know where they are based but they would go in there once every three weeks or something like that to clean up the culverts.

Mr. FAWCETT: There would not be that much maintenance of way work on a line that is in little use. I have one last question, and it has to do with the hauling of grain. Does empty box car haulage enter into the cost as far as grain transportation is concerned.

Mr. MACMILLAN: It certainly enters into the cost. I do not know whether you take it into your costs. I imagine you do.

Mr. BANDEEN: Oh, yes. We do a study actually of the pattern of the grain movements, because not all of the box cars come back empty. A great percentage of them do, but some of them have loads out of Vancouver, for instance, or Prince Rupert, particularly coming back east, but we actually trace the cars to find out which ones are empty and which ones are loaded on the way back. And, of course, they do not get charged with the loaded mileage if it is other commodities.

Mr. MACMILLAN: We try to load grain where we have the opportunity, in wide-door box cars, for example, west coast grain because then we can reload those cars in lumber coming east again. We get a two-way haul, but basically the grain is moved in steel frame box cars and the opportunities from the west coast east or from the lakehead back to the prairies for that type of car are very few and far between. So we have an empty haul.

Mr. FAWCETT: The reason I asked that question is that I am well aware of the fact that during a heavy grain-hauling season, we have complete trains of empties, and I just wanted to know if that was considered as part of the grain-hauling costs. That is all I have, Mr. Chairman.

Mr. OLSON: Mr. Chairman, I would like to refer Mr. Gordon and his officials to Section 317 which is on page 33 of the bill and also to page 4, of the summary of your brief, the section under paragraph numbered 3, where you say: "Section 317 gives 'any person' a right to complain against any act or omission of a railway which 'may prejudicially affect the public interest'", and then you say "Canadian National fully supports the proposition that the real public interest must be respected and protected" and so on. Now, Mr. Gordon, the provisions of the old section 317 allowed for someone to claim discrimination before the Board of Transport Commissioners. In other words, I presume that if he could show that some other shipper was being charged a lower rate than he was being charged under essentially the same circumstances the Board would then order the railroad to give that shipper who was complaining the same rate or any other lower rate that was offered to anyone else. Now, apparently, it is going to be required to prove that the public interest is prejudiced, if he is going to go

before the Board with a complaint. How do you interpret what this public interest means, and I am sure you have an opinion, because you have been arguing the other side of the case?

Mr. MacDOUGALL: The report of the Macpherson Commission recommended that if you were going to put the railways in a position where they were going to compete aggressively without unnatural restraints, what had to happen was that you had to remove the old system of regulations completely from the Railway Act, take it out, and replace it by a new system. They proposed the new system whereby the only restraints on the railway company would be the minimum and maximum rates. Within that boundary in the competitive area there would be complete freedom to compete between modes of carriage, to work out any types of schemes or arrangements, trainload rates, contract rates, any types of competitive arrangements that would enable the railway company to generate the greatest possible volume of business, in competition actually with other modes.

Now, the old controls, they said, such as having equalization of reight rates, having this rule where you must always look over your shoulder to see that you do not have a discrimination between localities or persons, and so on, were inimical to the new competitive situation, so their recommendation was to scrap all that and put in the new system. At the same time, it was felt, and as I understand the meaning of the bill, that there might be a situation where general public interest could be adversely affected. An example might be that the railway company, with the freedom that they would have to compete, might endeavour to generate a certain type of traffic wholly through a certain port, say the ports on the river at Montreal, to the detriment of the maritimes. The maritimes might well complain that the action of the railways in their action under the competitive freedom in channelling the traffic for their own interests through the Montreal area is detrimental to the maritimes position, or perhaps detrimental to the Pacific coast position. These would be general areas of public interest, not the private interests of an individual shipper, but the general interest of the public or sections of the community in Canada. So this provision is put in there to deal with that type of situation where there might be a genuine question of a wider general public interest involved or violated by some action taken by the railway companies under this freedom. And to protect against that, Section 317 is put in there. The old rules were put in to protect individuals against individuals. But those have been cast aside on the basis that the Commission found they were not needed in a competitive environment. That is what this is in here for, to give a general protection for a general public interest of that kind.

Mr. OLSON: In the application of this provision the removal of the old provisions of Section 317 would simply mean that if some small or smaller shipper found that a large shipper through negotiation had obtained a better rate for exactly the same commodity in like circumstances, that he would have no recourse to the Board to have this corrected.

Mr. GORDON: That would be a matter of opinion by the Board. Certainly he can appear before the Board—

Mr. OLSON: But he has to prove that the public interest suffers.

Mr. GORDON: Well, sure. One case of injustice is against the public interest, and the Commission has got to make up its mind. The Commission, faced with a situation of that kind, will have to determine the rules of procedure, what the criteria are, but we specifically say here is that this is going to apply to the railways, and we think it should apply to other forms of competing transport, and then you get the public interest better recognized when we are all in the same boat.

Mr. OLSON: What I was trying to find out, Mr. Gordon, is how you look at the interpretation of this phrase "prejudicially affect the public interest". If that individual shipper is discriminated against, would that constitute a prejudicing of the public interest or not?

Mr. GORDON: As we read the bill, public interest is not defined, and I do not know, but the Commission will have to in due course make a judgment in individual cases as they come before it, just the same as any other court in the land has to do.

Mr. OLSON: But as far as you are concerned—

Mr. GORDON: I do want to return again to my point, that we are making really a criticism of the bill here when we point out that this provision applies to the railways only, and we hope that this Committee will take note of our criticism in that respect, that we feel that it should apply to other forms of transport as well.

Mr. OLSON: Your opinion remains that the old, ancient and traditional case of pleading discrimination is no longer provided for in the act?

Mr. GORDON: Nor should it be.

Mr. OLSON: Nor should it be.

Mr. GORDON: Nor should it be in terms of the whole theme of this bill.

Mr. OLSON: What I wanted was your opinion in respect to this. Now, I would like to ask you one other question respecting this matter of the 30,000 pound car. I wonder if you would agree that almost any commodity, where the shipper is economically captive, would be a commodity that is carried in carloads of much larger than 30,000 pounds, and therefore it is a fictitious figure and not a realistic one at all for the kind of traffic or commodities that we are generally talking about.

Mr. MACMILLAN: Thirty thousand pounds is a very small load on a railway.

Mr. OLSON: A very small load, but when you apply all the variable cost factors to a 30,000 pound car and then set up a rate and charge that rate on 120,000 pounds, you have four times the variable cost, do you not?

Mr. GARDINER: May I refer again to this way bill analysis of the Board of Transport Commissioners? The average carload weight for all of the class rated traffic moved within Canada by all railways in the year 1964 was 34,000 pounds.

Mr. OLSON: Was this the average?

Mr. GARDINER: The average weight; there would be something of the order of 60,000 cars of class rated traffic moved at an average payload weight of 34,000 pounds.

Mr. OLSON: Is it not reasonable to assume that these weights at the lower end would be commodities that would in fact have a competitive opportunity, at least, from motor or highway transport?

Mr. GARDINER: I did not get your question.

Mr. OLSON: Well what I am saying is that these lighter loads of 30,000 pounds, and probably even up to 50,000 pound carloads, would be commodities that generally would present an opportunity to ship by motor transport rather than the very heavy loads such as bulk commodities and so on.

Mr. GARDINER: No, not necessarily, otherwise they would not be still moving under class rate. They would have found their way into the competitive rates.

Mr. OLSON: Mr. Chairman, I would like to ask Dr. Bandeen a question. I presume you have already calculated the variable costs on large numbers of commodities and even perhaps some of the specific examples that I mentioned earlier today, so there would be no great amount of work involved if the Committee should ask you by way of motion for these costs.

Mr. BANDEEN: The actual production of the costs would be very easy. If I remember all the cases you suggested, we obviously have them.

Mr. OLSON: It would be no burden to the CNR to produce these costs, if in some way or other we could get an order that they be produced.

Mr. BANDEEN: That is right.

Mr. OLSON: Just one final question, Mr. Chairman. Mr. Gordon mentioned a number of times today this matter of market competition and the making of rates and negotiating rates and so on, and the other matters that were related to this matter of establishing plants if they get a satisfactory rate from the railway for moving their commodities, either raw material or the finished product, or so on. The fact that this is so, then what you do in the making of these rates, does in fact have a profound effect on where industry will locate in Canada. Is this true?

Mr. GORDON: Yes, I think it is one of the factors in determining where any branch would try to locate. It is one factor, but not necessarily the deciding one.

Mr. OLSON: Not necessarily the deciding factor?

Mr. GORDON: No. There are many other factors.

Mr. OLSON: Well that is fine. But it does have a profound effect on this, and as long as we—

Mr. GORDON: Not in every case. It will vary again depending on the example. It is certainly true that there are some cases where the freight rate is a major factor; but there are a lot of other cases where the freight rate is relatively unimportant depending again on the geographical location and the type of the product.

Mr. OLSON: Dr. Bandeen, could you give me any indication of how these class rates that you now have were established?

Mr. GARDINER: I would have to call on my grandfather to give you a full explanation, in that they go back years and years. They go back to the days of exclusive monopoly and where the authorities attempted to control the amount

of burden assessed against individual shippers. Unfortunately, I cannot tell you, because this was before I was born. I cannot tell you what year the first class rates came out.

Mr. OLSON: That is exactly what I was trying to get at. Then because of the increased deficiency, the increased loads that are carried, the lowering of the cost per ton mile, and so on, in so far as 1966 is concerned, that most of these class rates that have been hurled at us from time to time are really very obsolete and bear no relationship to variable costs today. Is that true?

Mr. GARDINER: That is what the royal commission found and that is why they suggested an alternative measure.

Mr. GORDON: We should get away from that rigid system, get away from the heritage of the past, and as I said many times today, we should base rates on the self-regulating influence of competition subject to the qualifications that have been made about being compensatory and so forth.

Mr. OLSON: To suggest that these class rates that are ancient and obsolete could come back and be held out as being part of the criteria in establishing who is a captive shipper then is really almost nonsense is it not?

Mr. GORDON: I would not say that.

Mr. GARDINER: I believe the point you are trying to make is this; in the past, apart from this statement presented to you last week by the Department of Transport, the eastern region, say central Canada to the western region, gave a pretty good indication of the amount of long haul traffic moving at class rates. That would be the main object of your concern. In 1949, 69 per cent of the goods carried by all Canadian railways moving goods in central Canada to the western region, moved at class rates. In 1963 it was down to 8.1 per cent. Consequently you can deduce from this that the class rate as a ceiling is losing its original value. But we have to say at the same time that 8 per cent in our business happens to represent a large amount of traffic. Earlier this evening someone mentioned that only 1 per cent of the tonnage was moving at class rates throughout Canada, and that we should produce a list of our shippers. I said that statement which we have is 575 pages long and people were a bit suspicious of what I was saying. One per cent in our business is still a large amount.

Mr. OLSON: When someone whom we assume to be a captive shipper applies to the new transportation commission for a decision you are obliged to give him the variable costs. Then they are obliged under this bill to come forth with a rate, which is 150 per cent plus the variable costs. We will then know what your variable costs on that commodity are, will we not?

Mr. GARDINER: On a 30,000 pound rate you are quite right.

Mr. MACDOUGALL: The commission will know but the shipper will not necessarily know.

Mr. BANDEEN: He will know it at one point, whatever rate is given he can work backwards and calculate what the variable cost is for 30,000 pounds, yes he can.

Mr. MACMILLAN: He takes 40 per cent of it, I would think.

Mr. OLSON: We are asked to pass this legislation without knowing what the effect of the application of this formula is going to be. I am finished, Mr. Chairman.

The CHAIRMAN: Mr. Schreyer, you are next.

Mr. SCHREYER: Mr. Gordon, at the time of the hearings of the MacPherson Royal Commission, the CNR contented quite emphatically that the carriage of grain under the Crowsnest rate involved considerable loss, and my question is: Have the changes in the economics of grain transportation, as a result of full scale exports, changed your position any, or do you still make that contention? I ask that because it seems to me that this particular view was expressed repeatedly in the House of Commons during debate on second reading. That is to say, several members seem to be of the opinion that as a result of large scale exports of grain in the last two or three years, the whole economic situation of the carriage of grain under the Crowsnest was changing.

Mr. GORDON: I take it you are really asking if, since the time of the MacPherson Commission hearings, the volume of wheat shipments has increased to a point that the assumption is made it is now profitable traffic. Is that your question?

Mr. SCHREYER: That is correct.

Mr. GORDON: Dr. Bandeen will have to take that on because he has the analysis that goes along that line. Would you express it as it ought to be expressed and not give any member of the committee the idea that I said something opposite.

Mr. BANDEEN: We have not costed the grain for public purposes in the detail that it was done in 1958. In 1958 the Royal Commission found that we were losing money on the movement of Crowsnest grain. It did not find that the loss was as high as we had initially submitted because we had also included as part of the grain problem these branch lines and the cost of them, saying that that one should be related to grain. The commission said no and treated them separately, as you are well aware. Also, we had put in the cost of money at one figure and the Royal Commission found that our cost of money should be lower than that. Except for these two adjustments they accepted the cost as presented by Canadian National and this resulted in the \$4 million loss in 1958. My understanding is that when this bill is passed there will be a thorough review of the cost of the movement of grain on both Canadian railways over the next three years. At that time we will have an idea what the effect on the Canadian railways of the volume has been on the loss or profit situation of grain.

Mr. SCHREYER: Mr. Chairman, as I recall, at time of the submission—

Mr. BANDEEN: As I said before, I actually think in our case the situation has improved. I would expect to find the loss is less now than it was in 1958 because of this volume increase. I would expect to find that was the situation.

Mr. SCHREYER: Mr. Chairman, that answers a large part of my question. I have one further question which I would direct to the Minister. I think this is as appropriate a time as any. In view of the statement made in this submission by the CNR that if there is to be provision under this legislation for special appeal and investigation, is there any good reason why this provision is restricted to

railways and does not apply to other modes of transportation? If there is a good reason I might as well hear it now.

Mr. PICKERSGILL: I think perhaps the best reason I can give will be regarded by CNR as the worst reason. Even as late as 1954 we introduced legislation to amend the Railway Act to deal with the railways. It was only in the intervening period that I came to the conclusion, which I persuaded the government to go along with, that we should recommend to Parliament that we establish the proposed Canadian Transport Commission at the same time. We are, in fact, not immediately, or perhaps for some time in the future, going to exercise through the Transport Commission the jurisdiction over highway traffic that would make it reasonably possible to hear this kind of appeal in that context. It would probably take another several months before we could adopt legislation that we would necessarily regard as entirely suitable to provide a framework within which these appeals could take place. It seems to us that we ought to get on with the job that is really urgent. I do not think unless we can exercise the kind of effective jurisdiction directly over highway traffic—and I suppose that is mainly what one has in mind—a provision of that sort would mean very much anyway. In most cases of water traffic the rates are not set at the present time by the government. There would be nothing to appeal on. Those are the main reasons. I think the Canadian National has a perfectly good theoretical argument but to be quite blunt about it I do not think it is of very much practical importance at the present time.

Mr. SCHREYER: Mr. Chairman, is the Minister arguing that one of the reasons for not extending this provision to extra-provincial truck traffic is because of some constitutional barrier?

Mr. PICKERSGILL: There is no constitutional barrier to our making any kind of laws we like, because the Privy Council says that the exclusive jurisdiction over extra-provincial highway traffic rests in Parliament and nowhere else. There is no constitutional difficulty about making any kind of law we like about it. I suggest there would be tremendous difficulty in enforcing any sensible law if any provincial government decided it wanted to use its legislative power to frustrate the federal legislation. I do not think I would need to be a very bright provincial premier to figure out how to frustrate it. Therefore, I do not think we should go into this field as a practical matter. I said this the other day and I repeat it: I do not think we should go into this thing as a practical matter and legislate until we have the conference which the Prime Minister has invited the provincial governments to join and until we discuss with them how we can do this in a practical and co-operative way. Otherwise, we are going to have a worse mess than any mess that is likely to result from the present situation.

Mr. HORNER (*Acadia*): A different approach is taken with regard to medicare.

Mr. PICKERSGILL: Well, I am not an authority on medicare.

Mr. HORNER (*Acadia*): No, I just wanted to know—

The CHAIRMAN: Order, please. Order.

Mr. PICKERSGILL: I am not an authority on medicare—

The CHAIRMAN: Order, please. Mr. Horner and the Minister.

Mr. PICKERSGILL: You are questioning me on something I know nothing about.

The CHAIRMAN: Order, Mr. Horner.

Mr. HORNER (*Acadia*): This is a different approach from that which is taken by the government on medicare.

The CHAIRMAN: I guess you have used up your time, Mr. Horner, for your fourth round?

Mr. HORNER (*Acadia*): I do not care.

The CHAIRMAN: Mr. Schreyer?

Mr. SCHREYER: Mr. Chairman, one more question, if I may.

The CHAIRMAN: Order, please.

Mr. SCHREYER: I hope I am misreading or misinterpreting the bill, Mr. Chairman, but as I read it the probationary period for the new freight rate structure or provision is to be five years. Now if this a correct interpretation on my part I would like to ask if this is not considered perhaps too long a probationary period. Could not the necessary experience or information as to the efficacy of the new provision be gathered in eighteen months or two years? If there are any major flaws they should be eradicated before that time.

Mr. PICKERSGILL: I think, perhaps, the period you are suggesting may be a little on the short side. This is a matter I am quite willing to consider further. I do not think there is anything sacrosanct about five years. There is no question of principle involved. I am not one of these people who makes a principle of the difference between April and October. If there is some good reason why it should be a somewhat shorter period I would like to hear it, but we can be quite sure we will have a long enough period to gather a representative experience. I think there is a lot to be said for that.

Mr. SCHREYER: Mr. Chairman, I accept the Minister's answer but I protest his analogy. I do not think it was very good.

The CHAIRMAN: Order, please. Mr. Sherman?

Mr. SHERMAN: Mr. Chairman, Mr. Gordon said a few moments ago that we should get away from the rigid positions of the past and base rates on the self-regulating forces of competition. I presume Mr. Gardiner subscribes to that same philosophy.

Mr. GORDON: The Royal Commission understood that.

Mr. SHERMAN: I presume you subscribe to that philosophy though, you said that—

Mr. GORDON: We should believe in what the Royal Commission said. The Royal Commission found that in its report and it is on that report this legislation is based. That is the whole theme of the Commission's report.

Mr. SHERMAN: Exactly, but you made the statement, sir, as though you subscribe to it and endorse it yourself. I assume that Mr. Gardiner does too?

The CHAIRMAN: Order, please. I think order on both sides of this table would be quite in order. Now, Mr. Sherman, continue, please.

Mr. SHERMAN: Mr. Gardiner, if you did not subscribe to it earlier you do subscribe to it now. Well, I have just one question, Mr. Gardiner. Earlier today we were talking about the difference between rates in competitive areas and non-competitive areas. We were advised by you that rates in competitive areas are made up of the variable cost plus whatever the traffic will bear.

Mr. GARDINER: Mr. Banteen referred to the many specific costs that were prepared on our behalf. Now we examine the competition and when the shipper comes to us and presents his case and says, if you do not come down from the present rate of "x" cents down to "y" cents, we will lock the door to our own trucks or use somebody else's trucks, go by water or change the source of our supply, all sorts of facts that we mention. Now we examine this to the best of our ability, but there are times when we realize that this is getting quite close to our variable cost level, and we use the variable cost estimates provided by the costing section just to make sure that we do not come down so low that we go below our variable costs. We do not rate competitively on the basis of cost plus. That does not work with us.

Mr. SHERMAN: No, but somewhere, regardless of the mathematics that are employed in getting at the figure, somewhere in a competitive rate there are two elements and one of them, regardless of how you arrive at it, is your variable cost and the other element is the surcharge over and above that which you feel you can—

Mr. GARDINER: May I restate this. We use the variable cost to determine whether we should stay in for that type of business. That is all. We do not start with a variable cost and build on that as much as we can, because the market sets the price for us.

Mr. SHERMAN: I accept that, but would not the rate ultimately established be equivalent to—

Mr. GARDINER: If you were testing that a year later.

Mr. SHERMAN: Yes, and the difference between the variable cost and the actual rate you are charged, that difference can be very, very small. It can go to 150 per cent but it could be very, very small and in most cases it would be small, the competition would force you to keep it small. Would that not be a fair assumption?

Mr. GARDINER: There are many large shipments that can move at competitive rail rates that supply a very substantial margin of contribution, in that these are commodities which favour the railway's inherent physical advantages. I could say, for instance, the tri-level car. You can move fifteen automobiles on one car. It will take you at least $2\frac{1}{2}$ highway rates to move the same amount of traffic. Now, we have a definite cost advantage there and Ford, General Motors and all the automotive industry know that we have a substantial margin of contribution. The only thing we try to maximize, if you want, is a greater return if we can manage to handle the traffic from there on once we have agreed on the terms and to meet the competition by truck or otherwise. And from there on we do our best, sir, to handle the traffic physically with the optimum efficiency to try to make it even a greater percentage of contribution.

Mr. SHERMAN: I accept that, but I always thought it was a fundamental law and principle of competition in a free market that competition forces charges

down and you would arrive at your figure on the basis of the competition you had to meet, and in order to get the business you would be willing to go for a lower price, but naturally it would have to be above your variable cost.

Mr. GARDINER: What happens to you, sir, when you have 100 per cent of the business and with an agreed charge?

Mr. SHERMAN: What happens to me?

Mr. GARDINER: Yes. You will not keep on going down, you have met—

Mr. SHERMAN: No, but how did you get that 100 per cent if there wasn't an agreed charge? You had to offer something fairly attractive, and I offer you a—pardon?

Mr. GARDINER: We met the competition to the shipper's satisfaction and he signed the contract with us, and whatever amount of contribution there is over our variable cost it becomes totally immaterial so far as he is concerned, he has lowered his price and he has no one else to turn to.

Mr. GORDON: I think the real point that is pressing here is that as far as you making a rate is concerned, you are concerned with getting the traffic and you are concerned with the competition you have to meet, and your variable costs which have been handed to you by the costing department are your warning signal. That tells him that he can negotiate and meet the competition down to a point, but when he gets close to that variable cost he has been supplied with, he says to himself, wait a minute, now; we can not go beyond that; we are getting too close to the margin, and then he has to make up his mind that he can not meet competition and he gives up the traffic.

Mr. SHERMAN: Well, I accept that. But perhaps I had better move right to the question that I was leading to. It really is the basic question that I was going to ask and this was a preamble to that question. The statement that I was going to make that I would like to have repeated is that it appears to me that under the rate-fixing formulae which would be sanctioned by this legislation, it appears to me that the shipper in a competitive area, a competitive shipper, gets a much better break than a non-competitive commodity shipper because a non-competitive commodity shipper, although he has recourse to the commission if he is not happy with the railway's rate, the first logical thing to do would be to ask the railway for a rate and the railway can charge him, if his carload shipment is under 30,000 pounds, on the basis of variable cost plus anything up to 150 per cent. Now, he may not be satisfied. I grant you he can go to the commission and appeal it, but there is another question which comes up there, and that is whose figures are the commission going to accept? Are they going to accept the sophisticated costing figures of the railway or the unsophisticated figures of the shipper? I suggest they will probably accept the figures of the railway. But that is a secondary question. The fact is that in the first step the railway has a right to charge variable cost plus 150 per cent of that variable cost, and in the light of what Mr. Gordon said a few moments ago about basing rates on self-regulating forces of competition, and all that we have agreed on in this Committee today with respect to fair competition and equity and equality, it seems to me that 150 per cent over and above a variable cost is a pretty fair rate of return.

Mr. GORDON: Wait a minute, now. There is a point you have missed. I think you have done a good job in analyzing, but you must remember the reference to the captive shippers we are concerned with is based on the assumption of no competition. But in this bill the government have stepped in and start off by simulating competition. They took in the 30,000 pounds. The formula starts off with the government saying, well, you start off by assuming that this fellow has got competition and the simulated rate is based on 30,000 pounds. Is that not correct? So that the whole concept of trying to arrive at the rate for the unfortunate captive shipper, the government, recognizing this apprehension, has ruled by law that we start off on the assumption that there is trucking competition, which is based on 30,000 pounds. Then we proceed from there. From the government's point of view, I take it, that is the merit, of answering the point that you are worried about. We do not like it at all, but, nevertheless, the bill says that. We have told you before that we have tested the formula. It is not our formula. It was produced by government experts who analyzed this situation and came up with this formula to meet this very point. We have tested it against actual cases and we can say that in our opinion it is fair and workable. We can live with it; and, moreover, it is subject to review in due course. That is about all that legislation can do, is it not?

Mr. SHERMAN: That is a big help, sir, and I am particularly heartened to hear that you do not like it at all because that makes me like it all the more.

The CHAIRMAN: Mr. Horner.

Mr. HORNER (*Acadia*): Dr. Bandeen, you suggested earlier,—I want to clarify your remark from any thoughts that I may have which may not be quite true—that this commission should have what you thought should be an independent research council. Is that correct?

Mr. BANDEEN: I was suggesting that I thought the research portion of this commission outlined in the bill should be separate from the regulatory section. If it is not separated, the functions should be kept very carefully separate if they are housed under one roof.

Mr. HORNER (*Acadia*): Are you aware of the agricultural economic research council?

Mr. BANDEEN: I am just aware of it.

Mr. HORNER (*Acadia*): You are just aware of it?

Mr. BANDEEN: Yes.

Mr. HORNER (*Acadia*): May I explain to you that this is a council independent of all government bodies which brings about findings with regard to current subjects, shall we say. Do you believe that something similar, if necessary, should be set up, rather than have the research council a part of the commission?

Mr. BANDEEN: Yes. I want to go back and say that they have to be kept separate if it is within one group. I do not want to get into an argument whether it should be within one group or otherwise, but in their actual functioning the research and policy side have to be separate from the regulatory side. If they start interweaving, that is when you get into difficulty.

Mr. HORNER (*Acadia*): Let us suppose that the council is set up, separate from, or a separate part of, the commission. I would prefer it separate, but I am not going to argue about the question of whether it is under the umbrella or not. You would believe that the findings of the research council would be acted upon and accepted by the commission. In other words, the judgment, or the regulatory rules that they lay down with regard to any given commodity, or with regard to the railway movement of any given commodity, would be based upon the research council?

Mr. BANDEEN: This is exactly the problem I foresee. If the commission is going to do the research properly they have to look into all avenues and all possibilities. The job as outlined here is that they then recommend either to the Government or the Department of Transport, whatever is the proper authority. I do not think they can act on it in a regulatory way until it becomes either statutory—enacted, if it is a major change—or is government policy. What I would be afraid of is that if you have the same people doing the research as are doing the regulating they would have a tendency to act on it, in advance of it being an accepted government policy, or being a part of the laws of the land.

Mr. HORNER (*Acadia*): Exactly; and I agree with your fears. But let us examine the other side of the situation. Let us suppose that the economic research council which you and I establish, brings about a solution, or a partial solution, or attempts to bring about a solution to a given movement of a given commodity, and the commission passes regulations which run contrary to the research council's decision, would you think that would be wise?

Mr. BANDEEN: I cannot see this situation arising. I would hope that the research people would not be looking into individual movement. Their job, as I understand it, is to look into national transportation policy, and they would be concerned with the degree of regulation and problems such as this, but not with an individual movement,—at least I should hope so. I find it difficult to see how the regulatory commission would be acting in the same sphere, particularly if they were separated.

Mr. HORNER (*Acadia*): Let us suppose there is a discontinuance of a passenger service, or the abandonment of a rail line proposed by the railroad. The commission, set up as you and I believe it should be, generously and properly turns this question over to the research council for their findings and information on it. The research council finds, because of economic and social reasons, that this passenger service should be continued or discontinued.

Mr. BANDEEN: I do not think there is any power in the legislation for them to do that.

Mr. HORNER (*Acadia*): Well, they do not necessarily make this binding. I am not suggesting for one minute that their decision be binding. I am suggesting that this is a way it might work.

Mr. BANDEEN: I would suggest that the commission has rules and regulations for anything like abandonment of lines. My simple understanding of it is that they have to proceed within these rules and regulations and they could not go to an outside body for an opinion, or at least, they would not.

Mr. GORDON: Does it not say somewhere in the act—I cannot find it—that the commission shall sponsor research?

Mr. BANDEEN: Yes; but we have separated the commission, as I understand Mr. Horner's question.

Mr. HORNER (*Acadia*): He can fire you but he cannot fire me so I am not worried!

The point I am trying to make is I agree that the commission's research in costings should be separate. You could say that it is under the same umbrella, that is fine. But as long as they remain a separate investigating group to bring about a neutral—as near neutral as possible—solution to a given problem or a given movement of freight or a given passenger service or a given rail line. This is what my constituents want. I believe this is what the people of Canada want. They want a neutral body established which will aid them in bringing about a just and fair solution to the movement of the grain, to the abandonment of passenger lines or the maintenance of passenger lines or to the abandonment or maintenance of the rail lines. I thought, I had a glimpse of what you meant and, of course, what I had wanted for some time—an independent commission, an independent body, which will assist the people of Canada to get fair treatment from boards of transport, the new commission that this bill establishes, and so on. Do you not think there is a real necessity for this?

Mr. BANDEEN: I, personally, do not agree with the statement as you have outlined it now. My definition of research and your definition are quite far apart. I had no concept that the regulatory function, which I would consider all of the things you suggested, should be under one group. I cannot see how it can be separated.

Mr. HORNER (*Acadia*): Let us go back to what I suggested at the beginning of my question. You are aware of the economic research council. Here is an independent body sponsored and maintained by revenue from—the Minister can correct me if I am wrong—the federal government, the provincial governments and other interested parties.

Mr. GORDON: It is not a regulatory body.

Mr. HORNER (*Acadia*): It is not a regulatory body, and in no way do I suggest that the research part of this new Commission should be a regulatory body. This is what I am saying. It should be independent from the regulatory body.

Mr. GORDON: There is a further element. The research that we are talking about is not confined to discovering whether or not this or that is unfair. The research here should be pure, objective, original research.

Mr. HORNER (*Acadia*): I agree. I agree.

Mr. GORDON: It should have to do with whether or not we are going to use new kinds of equipment, or different kinds of series altogether from what we are using at present for transportation.

Mr. HORNER (*Acadia*): I do not want that rail line that goes past my home abandoned or maintained unless there is just cause for maintaining it or unless there is just cause for abandoning it. I want the research council to be fair. I want it to be as the economic research council which bases its findings purely on economic reasons.

The CHAIRMAN: Would you care to let me make a statement?

Mr. HORNER (*Acadia*): Fine, Mr. Chairman. You have a hammer!

Mr. CHAIRMAN: I will not use it right now! Thank you.

I want to bring to the attention of the committee that it was our intention to adjourn at ten o'clock, and that the CN would be recalled tomorrow morning. However, it may be the desire of the committee to finish tonight with the CN, because they are subject to recall and they will be coming back again for further questioning by the committee. I am just wondering if we could let Mr. Horner finish his time, and if there is anyone else who has any questions that they wish to ask—

Mr. HORNER (*Acadia*): Mr. Chairman, if I have four questions after my time has expired what happens then?

An hon. MEMBER: Just go right on.

Mr. GORDON: Put that under the heading of pure research!

The CHAIRMAN: I just want to get an indication of what time this committee wishes to adjourn so that we may let the officials know when they may be released.

Mr. ROCK: The house will sit through the midnight show until ten thirty, and I think we should continue at least until ten thirty.

The CHAIRMAN: We will continue. Mr. Stafford.

Mr. STAFFORD: Do we need a quorum to continue?

The CHAIRMAN: We require a quorum here.

Mr. HORNER (*Acadia*): Let the committee continue illegally.

The CHAIRMAN: Proceed.

Mr. HORNER (*Acadia*): Dr. Bandeen, I was trying to reach some agreement between you and one with regard to our views but I was interrupted and my train of thought was dislocated or re-routed. I was trying to reach some agreement on the point on which I agreed with you in the afternoon. In other words, I question whether I should have been so generous as to agree with you earlier without knowing fully what you were saying. This is why I wanted to know exactly what you said.

The agricultural economic research council is an independent body, basing its findings purely on economic reasons. Do you believe that a similar council could be so organized and sponsored which would aid this commission in bringing about an economic solution to given problems presented to it by railroads and shippers?

Mr. BANDEEN: I would like to start with the qualification, as I said, that I do not know the agricultural body, but I believe that the research function of the Commission should be separated from the regulatory function. I think we generally agree on that.

Mr. HORNER (*Acadia*): We generally agree with the fact that it should be separated; and that it should bring about findings and that those findings should be open to the people of Canada as well as to the railways. In other words,

everybody should be made aware of the economics of a given problem with regard to transportation in Canada.

Mr. BANDEEN: I would assume that the commission would publish the results of their research. At least, I would hope so.

Mr. HORNER (*Acadia*): Yes; and do you believe that the regulatory body of the Commission should bear witness and pay attention to the economic findings of this council?

Mr. BANDEEN: Yes, they undoubtedly would.

Mr. HORNER (*Acadia*): They undoubtedly would. They would pay attention and it would be reasonable to believe that the Commission would, if at all possible, base their regulations and their regulatory findings on sound economic ground. Am I right?

Mr. BANDEEN: We trust that the Commission would do that, yes.

Mr. HORNER (*Acadia*): Summarizing what you and I have agreed on, it would be reasonable to assume that the Commission, before making any regulations, would accept and, if at all possible, base those regulations on, the sound economic findings of the economic research council.

Mr. BANDEEN: I think, yes.

Mr. HORNER (*Acadia*): You are aware, of course, that this is directly contrary to what the government has done as regards the agricultural research council?

Mr. BANDEEN: I am not aware of that.

Mr. HORNER (*Acadia*): I thought that I would point this out, because you have now agreed that they should, and we have agreed—Mr. Chairman, I want this to be absolutely clear—that the CNR in their brief to this committee is recommending that the research part of this Commission be established as nearly independent as possible from the regulatory body, or the body setting up the regulations governing transportation in Canada. This is a very, very important point, because time and time again I have appeared before the Board of Transport Commissioners on behalf of constituents and I have been unable to obtain specific facts and figures with regard to railway operation in a given situation.

Dr. Bandeen has suggested that he would prefer it outside the same Commission, and this brief has suggested that it be set up outside the Commission.

The CHAIRMAN: As you directed your remarks to me, as I understood Dr. Bandeen, he said: "If it is within the same commission, as long as it is separate and apart from the regulatory body—"

Mr. HORNER (*Acadia*): All right. I agree with you, Mr. Chairman. You said "if". Dr. Bandeen said "If it is in the same Commission". Dr. Bandeen said to me that he would prefer it outside the Commission, but if it were in the same Commission he hoped it would remain separate and independent. I agree with him, and I want this committee to bear witness to that fact, because here is a basic grievance that most people in Canada have when coming to grips with

railroad problems and railroad analysis of a given situation with regard to the passenger service, the freight service or the transportation of a given commodity.

Mr. Chairman, just in summary, I think that this committee should give real consideration to an amendment to this bill along the lines which Dr. Bandeen has suggested and with which I have agreed.

The CHAIRMAN: You will have that opportunity when we deal with it clause by clause.

Mr. Rock: I will certainly not be as long as Mr. Horner.

Section 314 (i) starts on page 29, but I wish to go to paragraph 6 and the explanatory note on the opposite page 30, in determining whether or not "an uneconomical passenger service should be discontinued, the Commission shall consider all relevant matter including the matters set out." These matters are set out on page 31, (a), (b), (c) and (d). If you read—

An hon. MEMBER: You meant page 30, did you not?

Mr. Rock: Yes; I mentioned page 29 for the fact that the section is 314, and then I continued to the explanatory note facing page 30 at paragraph 6. These matters that are set out in (a), (b), (c) and (d) are on page 31. If you will permit me to read them: First, "the actual losses that are incurred in the operation of the passenger train service." This is actually to determine whether they will continue the passenger line or not. The alternative transportation services including any railways or highway systems serving the principal points served by the passenger train service that are available or are likely to be available in the areas served by the service. The probable effect in other passenger train service or other passenger carriers of the discontinuance of the service or parts thereof and the probable future passenger transportation needs of the areas served by the service.

I believe that these clauses (a), (b), (c) and (d)—give more tools to the CNR and the CPR to discontinue passenger service on the island of Montreal, if the service does not pay. We had a strike recently and I am sure that now you can be shown a deficit very shortly on these passenger services, both CPR and CN. This gives you all the tools with which to ask for the discontinuance of these given areas of the north shore or the lakeshore areas of the island of Montreal where the services are located. I believe, Mr. Pickersgill, that there should be a clause (e) added to consider the decline of passenger volume. In other words, you can prove that this commuter service does not pay and you may not have to prove that you have a decline of volume. I believe there should be something in this bill regarding the decline of volume. Out west there was a decline of volume, a decline of passenger service and things like that. Here there is no decline. I think there may be increases—a financial increase—in these given areas of the north shore or the lakeshore areas of the island of Montreal.

Mr. GORDON: The bill says that the commission determines that the operation of a non-economic passenger train service should not be discontinued. It does not say whether—

Mr. ROCK: Yes, but I still believe for full protection there should be set out—

Mr. GORDON: You are referring to commuter service now?

Mr. ROCK: Pardon?

Mr. GORDON: You are referring only to commuter service.

Mr. ROCK: Commuter service or passenger service. In Toronto or Montreal if the volume of the passenger service does not drop this means that possibly there should be an increased rate. In the past, Mr. Gordon, you have stated that the railways should get out of the commuter service business. I feel that if a clause (e) is not included in here stating "decline of passenger volume" somehow one of these days these paragraphs can be used.

Mr. MACMILLAN: Subsection 9 specifically excludes the applicability of sections to commuter business. We cannot use anything that is in the entire section. That is what I was complaining about this afternoon.

Mr. ROCK: Section 9 does not apply in respect of passenger train service accommodating principally persons who commute between points on a railway—the company providing the service. I do not think it really covers anything. I am just saying that here passenger service can be discontinued for say these following excuses: (a), (b), (c) and (d). I feel also there should be a decline in passenger volume and I feel that the Committee should consider adding a clause (e) reading "the decline of passenger volume".

Mr. PICKERSGILL: Mr. Rock, if I were to give you an undertaking to give some thought to that suggestion would that be satisfactory?

Mr. MACEWAN: On page 8 of the summary, we find "Elimination Of The Burdens Created By Uneconomic Operations". I take it that as set out here the CNR is objecting to section 314(b) of the bill because under the new set-up the transportation commission must designate an area before applications are permitted from the railway companies to abandon a branch line and that the Canadian National Railway is objecting to that. Is that correct?

Mr. MACDOUGALL: I think I might comment on that, Mr. MacEwan. The way the bill reads now, before the Canadian National can apply to abandon a line there would first have to be a designation by the commission that a certain area is one in which they will receive application. If, the line in a certain area we had in mind was never designated under which applications could be made we could never make the application. Therefore, that might go on for years and we would never be able to make an application to abandon that line. We would never, therefore, be able to receive any payment for the loss on the line if it is required to be kept for the public interest. We feel we should have the right to apply at any point and then if the line is required in the public interest the payment would be made to us of our loss.

Mr. MACEWAN: This list of lines which was given to us was made up by the transportation policy and research branch of the Department of Transport, dated October 11, 1966. In it is set out applications which have been made in Nova Scotia, Quebec and Ontario. When this legislation is passed it will mean that there must be a designation of the various areas by the transportation commission, and the CNR or in other cases the CPR would then have to file new applications for discontinuance.

Mr. MACDOUGALL: Or have those applications transferred—

Mr. MACEWAN: Forwarded to the new commission. All right, thank you very much.

The CHAIRMAN: I would bring to the attention of the members of the Committee before we close that on Monday at 10.30 a.m. the witnesses will be the British Columbia Federation of Agriculture. They have confirmed the date but we have not received their brief yet because they did not want to send them in case they came too late by mail. They will bring the brief with them on Monday morning at 10.30 a.m.

I would like at this time on behalf of the Committee to thank Mr. Gordon, Mr. Vaughan, Mr. MacMillan, Mr. Macdougall, Dr. Bandeen and Mr. Gardiner for their presentation to us. It has been a trying day for them, I know, but we will look forward to seeing them back here again before the clause by clause study of the bill.

Mr. HORNER (*Acadia*): We are not coming back tomorrow morning, Mr. Chairman?

The CHAIRMAN: No, we are not coming back. It was the decision of the Committee, Mr. Horner. We are through with the Canadian National tonight and they are subject to recall.

Mr. HORNER (*Acadia*): You are not going to permit me to ask some further questions tonight?

The CHAIRMAN: Not unless the Committee changes its decision.

Mr. HORNER (*Acadia*): You have been very effective in shutting us off all day and I do not know why you should stop tonight.

The CHAIRMAN: Order, please. Mr. Horner, you have had more time than anyone else.

Mr. HORNER (*Acadia*): That is because I wanted more time than anyone else.

The CHAIRMAN: You are entitled to all the time that you want.

Mr. HORNER (*Acadia*): They sent me down here to speak not to sit in a chair.

The CHAIRMAN: Well, that is the reason we are all down here. I shall entertain a motion to adjourn.

Mr. BOULANGER: On a point of order. I do not want Mr. Horner to go any further than he should go. I want to be fair, as well as the Chairman. You have refused to let him ask questions but it is not 10.30. I ask you to be extremely careful because we know our member, Mr. Horner. We have set 10.30 as the adjournment hour, but it is not 10.30.

The CHAIRMAN: There is a motion before the Chair, and it is in the hands of the Committee whether we adjourn at 10.30 or we vote on the motion.

Mr. HORNER (*Acadia*): On a point of order, Mr. Chairman. Did not the Committee agree to sit until 10.30?

The CHAIRMAN: Yes.

Mr. HORNER (*Acadia*): You are asking for a motion, as you did a few minutes ago, to speed up the adjournment of the Committee. Am I right or wrong. By five minutes, right?

Mr. BYRNE: Mr. Chairman, my understanding was until the late show was over. The late show is over and the bell rang. I think you were quite justified in calling for—

The CHAIRMAN: Will you please take a vote on the motion.

Mr. BYRNE: I so move.

Mr. STAFFORD: I second the motion.

The CHAIRMAN: It is moved by Mr. Byrne and seconded by Mr. Stafford that we adjourn.

Motion agreed to.

We will adjourn until 10.30 a.m. Monday morning.

APPENDIX A-11

Submission

of

CANADIAN NATIONAL RAILWAYS

to

THE STANDING COMMITTEE

on

TRANSPORT AND COMMUNICATIONS

concerning

Bill C-231

AN ACT to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and to enact other consequential provisions.

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CHAPTER I

GENERAL STATEMENT OF POSITION

CANADIAN NATIONAL RAILWAYS

Canadian National Railways welcomes the opportunity to appear before the Standing Committee on Transport and Communications in order to present its views on Bill C-231.

The proposed legislation, in setting forth a framework for a national transportation policy and establishing the means for the carrying out of that policy, is of vital importance to Canada, to Canada's national development, to the railway industry and, as well, to other modes of transport as participants in national and industrial growth.

Before dealing specifically with provisions of the Bill and how they relate to the railway industry, it may be considered helpful to deal with some of the background which resulted in the appointment of a Royal Commission on Transportation, later to become known as the MacPherson Commission on Transportation, and whose findings and recommendations in the main form the basis of the principles of the National Transportation Policy which are contained in Bill C-231.

The circumstances which gave rise to the appointment of the MacPherson Commission occurred late in 1958 when the railways were granted permission by the Board of Transport Commissioners to levy a 17 per cent increase in freight rates to meet wage increases. In the following year, a measure was introduced in Parliament to roll back and freeze freight rates and, concurrently, there was appointed a Royal Commission to conduct a broad inquiry into the

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freight rate structure and, among other things, to consider, as well, the obligations and limitations imposed upon the railways by law for reasons of public policy, with the direction to determine what could and should be done to ensure a more equitable distribution of any such burdens. The Commission was composed of six Commissioners under the chairmanship of M. A. MacPherson, Q.C., and the Commission had counsel, research staff and assistants, and was aided from time to time by consultants. It was an independent and impartial Commission, and a reference to Volume I of its report indicates that "public hearings were held in 14 cities in Canada including the capitals of the ten provinces. Some 141 submissions were heard and 185 exhibits were filed during the course of these hearings which lasted 134 days."

It was the most thorough investigation ever undertaken by a Royal Commission on freight rates and general transportation matters and, in the ensuing chapters, reference will be made from time to time to the Commission's observations on aspects of the rate structure and the National Transportation Policy as they occur in Bill C-231.

The dominant theme of the Commission's report was that while the transportation environment throughout Canada became more and more competitive, the railways' proportion of the available market had decreased. It found that a basic reason for this condition is that the railway industry was operating under regulations which had seen little change (with the exception of Agreed Charge legislation) in 75 years and that regulatory environment was thus geared to the monopoly era of the past rather than today's highly

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competitive economy. Further, it found that the railway industry was bearing unreasonable cost burdens, also a legacy of the monopolistic past. With respect to these conditions, the Commission declared that there was a pressing need for two fundamental changes:

- (a) that there should be a new scheme for making freight rates which would fit today's competitive conditions. Railways should be left free to make rates which will obtain the traffic in the competitive area as long as the rates are compensatory, with the minimum amount of control remaining only for shippers captive to the railway who are in the non-competitive area; and
- (b) that burdens, which still are imposed on the railway industry by reason of other national policies, should be lifted.

Section 1 of Bill C-231 sets out a National Transportation Policy for all modes of transport coming under federal jurisdiction. This is the first time in Canada that such a policy statement has been made in transport legislation and Canadian National considers it important and helpful to have this policy enunciated.

Reference will be made throughout Canadian National's brief to the declaration of the National Transportation Policy and, therefore, it is considered useful to quote it here in full:

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"1. It is hereby declared that an economic and efficient transportation system making the best use of all available modes of transportation at the lowest total cost is essential to the economic well-being and growth of Canada; and that these objectives are most likely to be achieved when all modes of transport are able to compete under conditions ensuring that, except in areas where any mode of transport exercises a monopoly,

- (a) regulation of all modes of transport with due regard to the national interest will not be of such a nature as to restrict the ability of any mode of transport to compete freely with any other modes of transport;
- (b) each mode of transport, so far as practicable, bears a fair proportion of the real costs of the resources, facilities and services provided that mode of transport at public expense; and

(c) each mode of transport, so far as practicable, receives compensation for the resources, facilities and services that it is required to provide as an imposed public duty;

and this Act is enacted in accordance with and for the attainment of so much of these objectives as fall within the purview of subject matters under the jurisdiction of Parliament relating to transportation.”

Canadian National supports the principles and objectives embodied in Section 1 of the Bill and will co-operate in all respects and to the fullest extent with the authorities proposed in the legislation in the implementation and attainment of the objectives of the National Transportation Policy.

Canadian National, while agreeing with the general statement of principles and objectives as contained in Section 1, *does not agree* with the subsequent provisions of the Bill which, in some respects, do not conform with the spirit and intent of the Policy. It is respectfully submitted that serious and substantial departures are made from the principle of the Bill and there are provisions

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which are discriminatory in nature against the railway industry.

These matters will be dealt with in detail in the ensuing chapters.

Financial Aspects

With respect to subsidy payments, Bill C-231 provides, as described in the explanatory material with the Bill, “for a transitional subsidy to the railways which will start at approximately the present level of railway subsidy payments, namely, one hundred and ten million dollars per year; and commencing in 1968 will decline at the rate of twelve and one-half percent of the present subsidy each year. Provision is made for the new Commission to recommend subsidy payments to the railways to cover the losses on either uneconomic branch lines or uneconomic passenger services which the Commission may decide should not be abandoned in the public interest, at the present time. These special subsidies will be deductible from the transitional subsidy so long as they are smaller than the transitional subsidy.”

In other words, the Bill does nothing more than carry the existing level of payments over until 1967. In 1968, the level of those payments will begin to reduce by \$14 million per year. There are no additional payments or new payments provided by the legislation to help cover any of the increased wage costs which were awarded for 1966 and 1967 by virtue of Bill C-230, enacted by Parliament as the “Maintenance of Railway Operation Act, 1966.” This situation causes serious concern to the railways.

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It is submitted, as well, that the annual reduction of \$14 million per year reduces the subsidy payments to the railways too rapidly when considered in relation to the burdens. Furthermore, it should also be made clear that the railways be permitted to reduce unnecessary and uneconomic services at a rate

which would at least match the reduction in the general subsidy payments year by year.

It should be observed, as well, that the railway industry is not the beneficiary of broad public programmes to the same extent that other carriers are, i.e. water, road and air. The railway industry must maintain and replace high cost roadway, plant facilities and rolling stock, all of which are charged against itself. In the air industry, for example, public funds in the billions, in Britain, France, the United States, are being made available for research and development of supersonic jet transport. Recently, as well, in the United States the federal government has established a \$90 million three-year programme of high-speed ground transportation research and development. With respect to the railway industry in Canada, research is performed by, and at a cost against, the industry alone. It is the Company's view that there is a general need in Canada for a governmental supported programme of research and development for the transportation industry and, indeed, Bill C-231 can provide the opportunity for this and it is hoped that the new Transport Commission as proposed by the legislation will sponsor a constructive programme in this respect.

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CHAPTER II

THE CANADIAN TRANSPORT COMMISSION

The Bill provides for the establishment of a new body, the Canadian Transport Commission, which would absorb the Board of Transport Commissioners, the Air Transport Board and the Canadian Maritime Commission. The intention seems to be that, in this way, each mode of transport, upon passage of the Bill, will be brought under the control of the new Commission. In addition, as circumstances may permit or require, extra-provincial motor vehicle transport and commodity pipelines will be brought under the jurisdiction of the Commission. This new arrangement does, on its face, have much the same appearance as the United States Interstate Commerce Commission. It is hoped that Canada will learn from the U.S. experience and obtain the benefits which should flow from the new declaration of the National Transportation Policy. At the same time, it should be recognized that there are serious deficiencies in the U.S. system, the duplication of which should be avoided in the Canadian control machinery.

It is of importance to observe that the MacPherson Commission did not recommend the establishment of such a new commission to control various modes of transport; but what it did was to include, among its recommendations, the establishment of an Advisory Council which it contemplated would carry out many of the duties and assignments now delegated by Section 16 of Bill C-231 to the new Canadian Transport Commission. In particular, the MacPherson Commission had in mind that its suggested Advisory Council would

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undertake studies and research into problems affecting various modes of transport in Canada and make recommendations to the Department of Transport with the aim that Canada might obtain the benefits of a better balanced

overall transportation system. The country can receive great benefit from the proposed Commission if it concentrates upon the powers given to it to analyze the various problems facing the industry. If, however, the Commission does not take the broad view of the National Transportation Policy as contemplated by Section 1 but proceeds to inter-relate the research and regulatory functions, then the positive and constructive results as contemplated by that policy will not materialize. The broad purposes might be better served if these functions were handled by two separate commissions.

The principal area in which the Interstate Commerce Commission acts to inhibit the free play of competition is in the undue consideration it has for other modes of transport when measuring the impact of action taken by one particular mode. The MacPherson Commission was careful to emphasize that competition between modes should not be restricted in any way and that each mode was entitled to bring its full competitive strength to bear in the market place, thereby giving the shipper the benefit of such strength.

Where there is competition, the object of each competitor is to obtain as large a share of the volume of business offered as his rates and service will attract. If one mode has an inherent strength, it should be able to use it in the competitive struggle. The object, therefore, is not to set rates which will be

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equal for all modes but rather that each mode has freedom to set rates and give service which it feels will attract the traffic. It is recognized, of course, that in the competitive struggle, rates must always be compensatory to all modes, but as long as that rule is carefully respected the shippers can only benefit from vigorous competition with each mode using all the resources at its command to attract as large a share as possible of the available business.

The new Commission will, of course, perform its function of regulating transport in the non-competitive area so as to ensure fair treatment for all shippers. In the competitive area, however, the only control should be that the rates must be compensatory and that the action being taken by a particular mode should not be contrary to the general public interest.

As previously stated, this principle seems to be enunciated properly in Section 1. However, the powers and duties of the new Commission as set out in Section 16 are so broad that the Commission might interpret its duty—and as time passes it probably will—in a manner similar to that performed by the Interstate Commerce Commission. It is the contention of Canadian National that such action by the new Commission would nullify the important benefits which the new legislation contemplates.

Particular note should be given to Section 16(1)(c):

“inquire into and report to the Minister on the relationship between the various modes of transport in Canada and upon the measures that should be adopted in order to achieve co-ordination in development, regulation and control of the various modes of transport;”

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Also, to Section 16(1)(g):

“establish general economic standards and criteria to be used in determination of federal investment in equipment and facilities as between

various modes of transport and within individual modes of transport; and in determination of desirable financial returns required therefrom;"

In the literal meaning, these two subsections give the Commission extraordinary powers and could produce a new system of regulatory control more far-reaching than obtains under existing statutes.

In examining in toto Sections 15 and 16, it is deemed appropriate to quote the observations made by the MacPherson Commission in Volume II, page 124, as follows:

"Management of rail facilities is the responsibility of the rail company, be it *privately or publicly owned*. Within the framework of government regulations, management must be free to manage. The responsibility must be theirs to initiate the removal of unprofitable segments of their business, to streamline their operations, to reduce costs and to initiate new facilities to meet the needs of the shipping public. No one else can do this for them and no one else should try to do so. That management must do the managing is an elementary principle, the acceptance of which we believe is vital to the achievement of an efficient rail transport system in Canada."

Appeal Provisions

The appeal provisions in Section 17(4) and (5) are most unsatisfactory and discriminatory in nature.

The new Commission will perform its duty through various committees. Subsection (4) allows for an appeal from the ruling of the committee to the

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Commission by (a) a person interested; or (b) the operator of another mode of transport. There can be no objection to this procedure insofar as a person interested is concerned, but there seems to be no rational reason why one mode of transport should be able to complain that an order of the committee discriminates against it or is otherwise unfair to its operation. If this is the case, then the committee must always approach its task dealing with one particular mode, having in mind the effect which its ruling will have upon another mode.

This is the type of situation about which Canadian National is concerned. It is this type of regulation which inhibits the Interstate Commerce Commission and enables each mode of transport to interfere with and obstruct the actions of another mode competing against it.

In addition, while it is perfectly correct and proper that the Commission should examine any complaint made in respect of an order, rule or direction issued by one of its committees, it is not, in our view, proper that any such order, rule or direction should be automatically stayed until the appeal is heard. Such a rule can only lead to obstructive tactics by competing modes of transport. The fair approach would be for the Commission to satisfy itself that the complaint is bona fide and, after reviewing the case, then render its decision to rescind or vary the committee's order, as the case may be.

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Recommendations

1. The powers given to the new Canadian Transport Commission should be carefully examined to ensure that the Commission, in carrying out the National Transportation Policy, does not inhibit the action or development of one competing mode of transport by undue consideration for another competing mode.

2. Section 16 of the Bill should be further reviewed to ensure that the powers, duties and functions of the Commission are clarified wherever necessary to make it clear that they relate principally to the co-ordination, research and development aspects of its work rather than to the direction, regulation and control of the various modes, particularly in the competitive area.

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CHAPTER III

COSTING OF RAILWAY OPERATIONS

The MacPherson Commission based many of its fundamental recommendations upon the ability to cost various railway operations in an economically meaningful way.

At Volume II, page 59, the Commission noted the validity of present railway costing methods:

“The great strides made recently in the techniques applicable to the costing of rail movements give confidence and precision to the ratemakers.”

Since 1961 development in technique and method has continued. Canadian National uses its costing abilities daily in ratemaking and for making management decisions. In a year its cost analysts produce many thousands of individual costs.

Bill C-231 sets forth methods for validating the costing of the railways which appear to protect the confidential nature of individual rail costs while still not restricting the discussion of the method. It is essential that railway costs can be calculated accurately and easily. It is also desirable that there be no large costing staff developed by the Commission. Bill C-231 appears to meet these qualifications by having the railways calculate the actual costs of movement with the items and factors to be included designated by the Commission. Thus the Commission need only have a small, technically competent staff. The public is protected by being able to express their views to the Commission on the items and factors which will be included in railway costs.

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It should also be noted that the Commission is directed (Sec. 387B(1), p. 54) to have regard to the principles of costing adopted by the MacPherson Commission after their exhaustive study of the subject. The Commission is to have regard also to later developments in railway costing methods and techniques.

Some have suggested that railway costing is so complex no one but an expert can understand it. In its detail that may be true, but the principles employed are not complicated and to make this aspect of the Bill more meaningful it is proposed, at the convenience of the Committee, to give a short visual demonstration of how costing is carried out in practice.

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CHAPTER IV

PRICING OF SERVICES UNDER BILL C-231

(A) *Freight Rates*

The fact that the transportation environment in Canada changed from one of monopoly to one of intense competition between all modes of transport led the MacPherson Commission to recommend changes in freight ratemaking and regulation which are designed to fit the new circumstances and enable the railways to take their proper place in the competitive environment.

In brief, the MacPherson Commission recommended that rate regulation be limited to prescribing the minimum rate below which railways could not go in making rates and to fixing a maximum rate in the limited area in which shippers remained dependent upon railways for their transportation needs. Between the floor of minimum rates and the ceiling of maximum rates, the Commission recommended that railways be free to make rates in accordance with normal commercial principles. The Report pointed out that one consequence of following this policy would be that applications for permission to institute general freight rate increases by order of the Board of Transport Commissioners would in future be eliminated. (Vol. II, p. 113)

The following quotations give a clear view of the thinking of the MacPherson Commission:

"We look forward to the day when, because of effective competition throughout the nation, maximum rate regulating machinery may be scrapped completely and it is our intention that whatever steps we recommend should contribute to progress toward that goal.

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"We expect that our proposals will mean less regulation rather than more and that subject to the maximum rate rule the railways will have all of the discretion on non-statutory pricing matters that any other company would have. The government, the shippers, and perhaps even the railways themselves must begin to treat railways more as normal commercial operations." (Vol. II, pp. 94-5)

"Within the controls for minimum rate regulation which have been spelled out in Chapter 3 and maximum rate controls as set out in this chapter, the railways will be free to set individual rates by ordinary business standards and to adjust them upwards and downwards as the competitive conditions and changes in cost patterns require." (Vol. II, pp. 106-7)

"Railways, in common with other carriers, particularly trucks, will be free to make independent assessment of all their rates, and adjust them as business acumen directs, subject only to the maximum controls over significant monopoly and the minimum controls of directly associated costs of the movement." (Vol. II, p. 113)

"Embracing the limited controls on monopoly power specified throughout this Report, public policy must recognize that railway rates and services cannot now be determined and cannot now be controlled by considerations other than those set by commercial and competitive necessity. To legislate rates and ratemaking conditions freely into existence is to betray an attitude which is anachronistic under modern competitive conditions. It simply is not possible to ignore commercial principles in legislation and expect those same commercial principles to provide adequate rail revenues." (Vol. II, p. 277)

The Report was at pains to emphasize that its recommendations on maximum rate control were a replacement of existing rate regulation and not an extension of it, and that the old controls and the new would not mix. The Report said:

"Such maximum rate control, it should be emphasized, is recommended solely as a replacement to existing rate regulation, not as an extension of it. The old controls and the new will not mix.

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"This latter point is so important that we feel we cannot stress it too strongly for there is the very real danger that either through misunderstanding or inadvertence the recommendations for maximum rate control which follow will be only partially implemented or superimposed on top of existing regulation. Nothing could in our view be more harmful nor less in keeping with our findings and recommendations. The time is long overdue when the trend of legislation should begin to reflect the facts of the increasing competition which railways face, and it is our intent that the effect of our recommendations should be to change the nature and reduce the extent of rate regulation over railways while retaining the necessary minimal controls required. It would be a serious misconstruction of our recommendation respecting regulatory rate control to attempt to implement our proposal for maximum rate control within the present system. Specifically, the proposal for maximum rate control set out in this chapter is designed to replace the present unsatisfactory maximum rates and we state, with great emphasis, that a partial implementation will not succeed." (Vol. II p. 85)

The rate controls set out in Bill C-231, in addition to that for minimum rates, relate to the protection for traffic shipped by one who is a captive to the railways. In such cases the railways' rate freedom is subject to a maximum rate control principle as recommended by the MacPherson Commission, but modified for shipments over 30,000 lbs. so as to *require* the railway to give such shippers one half of its savings obtained from heavier loading. (Sec. 336, p. 43.) (For carloads of 50,000 lbs. and more, the effective maximum rate shall be the

maximum rate applicable at 30,000 lbs. less half of the per-100 lbs. rail cost reduction resulting from the heavier payload, with cost estimates being calculated at 20,000 lbs. increments over 30,000 lbs. In other words, half of the difference in cost per 100 lbs. calculated at 30,000 lbs. vs 50,000, 70,000, 90,000, etc.)

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The MacPherson Report had recommended that this sharing of savings be a matter for negotiation between the shipper and the carrier but, as stated, the Bill makes a provision for equal sharing beyond 30,000 lbs.

It is respectfully submitted that the provisions of the Bill dealing with mandatory sharing of savings are wrong in principle, in that they not only ignore, but violate, fundamental commercial principles. The MacPherson Report was careful to point out "it simply is not possible to ignore commercial principles in legislation and expect those same commercial principles to provide adequate rail revenues." (Vol. II, p. 277)

The MacPherson Commission recommended that the maximum rate control come into effect only when such rates advance above present levels. The Bill (Sec. 336(11), p. 46) sets this level at that payable by a shipper on the first day of August, 1966, including rates paid by shippers under the Freight Rates Reduction Act. Whereas the Report put no time limit on this provision, the Bill confines the exemption from maximum rate control to three years from the coming into force of the Act. (Sec. 336(15), p. 46.) The earlier Bill C-120 had a five-year exemption which in itself was a serious change in the Report's recommendation. It is Canadian National's view that no such limitation as to time should be included in the Bill but, in any event, if such a limitation must be included, then we advocate a five-year one which would coincide with the general provisions (Sec. 336(16), p. 46) dealing with public hearings and a report to the Governor in Council by the new Canadian Transport Commission on the freight rate procedure.

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While the old controls have been largely eliminated, some new ones have been added, and this raises the important question: will the railways really be free to compete on normal commercial lines? Of serious concern to Canadian National is the fact that the Bill makes provision for objections and even harassment by competitors, a situation which was never envisaged by the MacPherson Commission and nothing in that Report suggests that competitors should have any right to object except by counter competitive action.

Section 317 of the Bill gives "any person" a right to complain against any act or omission of a *railway* which "may prejudicially affect the public interest." The MacPherson Commission did not think any such provision necessary. However, Canadian National fully supports the proposition that real public interest must be respected and protected, and if this section is viewed in that light it will be useful. It should be noted, however, that this provision is directed only at railways although the new Transport Commission will control other forms of competing transport.

It is the view of Canadian National that Section 317 should be amended to make it applicable to all forms of transport. Care should be taken also to ensure

that it is not used as an instrument for harassment of one mode by another under the guise of "public interest."

Section 317(2) defines the matters which the new Commission shall have regard to in an investigation under the section. Subsection (a) says that in looking to see if an unfair disadvantage has been created the effect of railway

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action must not be judged unfair if it stays within certain limits, such as those aspects inherent in location, scale of operations or volume and type of *traffic*. The list should also include volume and type of *service* offered because there will be occasions where a railway or other mode and a shipper will integrate their operations so as to produce a special service arrangement and lower transportation costs. The railways and their shippers should not be deprived of such cost saving arrangements and, therefore, an amendment of subsection (2) is required to reflect this possibility.

Section 17 of the Bill is a new provision which provides for the establishment of the Canadian Transport Commission into committees. Subsection (4) says that "a person interested" may appeal any order, rule or direction of a committee to the Commission itself. Also "an operator of another mode of transport" may appeal any such order, rule or direction which it feels "discriminates against or is otherwise unfair to his operations." In both cases, subsection (5) provides that the order, rule or direction appealed from "is stayed until the appeal is heard." Such a provision is inequitable; it goes far beyond any general public interest and, in fact, gives competing modes of transport a right to assess every order or ruling made by a committee of the Commission in the light of their own narrow interest and to have such order or rule stayed merely by filing a complaint—no matter how unfounded or insupportable it may be. There can be no objection to "a person interested" having ground for review of the committee's orders, but strong objection is taken to a competing mode having a right to object—except on the ground of general public interest available under Section 317.

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Also, strong objection is taken to subsection (5) which would allow an automatic stay of a committee order, rule or direction. Surely this remedy should follow normal legal procedures which would allow the Commission to hear the complaint and rescind or vary the order as the evidence might indicate. The Commission has full power to review and act if the public interest is in any way affected.

In Volume II, the MacPherson Commission, speaking of the development of a National Transportation Policy and the place of competing modes of transport, made it clear that the Commission should not try to protect one mode from the effects of competition. At page 17 it said:

"Therefore, the development of a National Transportation Policy must on one hand attempt to exercise limits on individual rates where evidence of monopoly exists. On the other hand a consistent National Transportation Policy must do nothing to inhibit the growing free play of competition, nor cushion the rough blows of competition in that segment of the whole

transportation industry where a large number of firms will bring efficiency and flexibility."

And—

"The policy which we believe should be adopted will not guarantee longevity to any specific firm offering a transportation service nor guarantee the long-run continuity to any given mode of transport as we now know it. The facts of competition and the national demands for efficiency eliminate such guarantees. The policy should provide a climate in which any firm providing transportation by means of a mode, or modes, shall have the opportunity to reap the rewards of flexibility and efficiency or take the consequences of rigidity and inefficiency. We conclude, therefore, that efficient transportation should be the objective and measure of public responsibility for the nation's transportation system."

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It should also be noted that Section 45A is new and grants status to be heard before the new Commission to "the representative or agent of any provincial or municipal government or any association or other body representing the interests of shippers or consignees." This widens the area of parties interested before the Commission considerably beyond that obtaining in the present act which is limited to the party directly affected: the shipper or consignee.

Again it should be noted that this further addition to the regulations dealing with hearing of objections by the new Commission is directed only at railways. Surely it should apply to all modes equally.

It should not be forgotten also that Section 53 of the Railway Act remains unchanged. This is the section which gives the Governor in Council discretion to vary or rescind any order, decision, rule or regulation of the Commission. It also provides for appeals to the Supreme Court of Canada upon any question of law or jurisdiction. These are powerful remedies and will continue to be available to all parties interested.

Recommendations

1. Section 317(1) should be amended to make it applicable in respect of all modes of transport.

2. Section 317(2) should be amended by adding the words "or service" at the end of subclause (a).

3. Section 45A should be amended to make it applicable to all modes of transport.

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4. Section 336(15) should be eliminated from Bill C-231.

5. Section 17(4b) should be eliminated from Bill C-231.

6. Section 17(5) should be amended to remove the automatic stay of the order, rule or direction appealed.

* * *

(B) *Exemption of Maritime Freight Rates*

Section 335, page 41, provides for exempting freight rates to, from and between points in the select territory from the proposed changes in ratemaking set out in Bill C-231. This exemption applies to all such class and commodity rates and will be valid for a period of two years. During that period it is expected that a current study of Atlantic area transportation problems will be completed. Such study was recommended by the MacPherson Commission.

Canadian National is currently in the midst of a re-organization of its less-carload and express services into one consolidated service known as Express-Freight. Many of the facilities for these two services have already been amalgamated. Changes are proceeding as quickly as good planning will allow. During 1967 it is planned to integrate the two rate systems and their documentation all across Canada to provide a new consolidated classification and rate scales with modified bills of lading and other documents. This will produce a more efficient, economic and better service for our customers. We expect it will help attract a considerably increased volume of this business to the railway. Unless, however, less-carload traffic is removed from the effect of Section 335,

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the Atlantic area will be deprived of this improved service and it will make it extremely difficult to carry forward this planned improvement for the rest of Canada.

One further aspect of the effect of Section 335 should be borne in mind. There are freight rates in the select territory which are at a level close to today's variable cost. The railways are today faced with very substantial wage increases. It could easily happen that during the two-year period some rates would become non-compensatory by going below variable cost. Thus Section 335 should be subject to Section 334 so such rates could be adjusted to keep them at least compensatory.

Canadian National assumes that the Atlantic Region transportation study will be completed within the two-year period. Recommendations will likely be made for changes in the present system and perhaps in the Maritime Freight Rates Act. Such recommendations will no doubt be directed toward producing a fair and equitable transportation system for the Maritimes. It must, however, also be a fair and equitable system for the railways as well as other modes of transport. Canadian National will watch the progress of this study with great interest and concern because of its substantial role in the transportation environment in the Maritime area.

Recommendations

1. Section 335 should be amended to make it subject to Section 334.
2. Section 335 should be amended to remove less-carload freight rates from its effect.

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(C) *Passenger Rates*

Bill C-231 extends the general principle of the MacPherson Report—that competition should regulate rates wherever it exists—to passenger rates. In-

sofar as competitive intercity passenger services are concerned, there will be rate freedom between competing modes subject only to appeals under Section 338A, page 48, based upon some general public interest. Commuter services, which are highly competitive local services, are not left free to find their own level as competition dictates but, rather, are retained under control in the same way as services in areas not connected by an adequate highway system. At the same time, commuter services are excluded from the relief provisions governing uneconomic passenger services.

Canadian National objects to this treatment of commuter services; these provisions dealing with commuter services are wholly inconsistent with the objectives and principles of the Bill.

Recommendation

1. Section 338(4) (b) should be eliminated so as to remove commuter fares from non-competitive regulation and leave them free to be set by competitive forces.

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CHAPTER V

ELIMINATION OF THE BURDENS CREATED BY UNECONOMIC OPERATIONS

(A) *Uneconomic Branch Lines*

The MacPherson Report recommended that railways be permitted to abandon uneconomic lines if they could prove loss. The Board was to confine itself to setting an abandonment date and if postponed in order to allow shippers' investment in the area to be amortized reasonably, the railway would be paid its loss until abandonment occurred. The size of the loss subsidies was set at \$13 million and the period for abandonment was fifteen years.

Bill C-231 varies this formula. Rather than get an order for abandonment on proof of loss, each case will have to be heard by the Commission which shall have regard to other cases in the same area. Railways may not even file applications until the area concerned has been "designated" for such action. (Sec. 314B(1), p. 21.) The Commission will verify the loss (Sec. 314B(4), p. 21) and then determine whether the line "is likely to continue to be uneconomic." (Sec. 314C(1), p. 22.)

The railway's claim for loss is based on a finding by the Transport Commission that the line "has been *determined to be uneconomic* under Sec. 314C." (Sec. 314E(1b), p. 27.) Section 314C does not require the Commission to determine whether a line is "uneconomic"; rather, it refers to whether a line is *likely to continue to be uneconomic*. It seems an amendment is needed here to make the sections consistent.

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The Commission will either order that an uneconomic line should be abandoned (Sec. 314C(4), p. 24) or that it should not. (Sec. 314C(5), p. 24.) In the latter case, it will review the case at intervals of not more than five years, during which time the loss will be paid. In a case where the Commission finds

the line should be abandoned, it may fix a date not earlier than 30 days nor later than five years. The delay up to five years in such cases seems unnecessary except, perhaps, in the case of western grain lines.

A review of abandonments authorized by the Board during the recent past shows a delay after issuance of the order of only one or two months. The important aspect of the abandonment of an unnecessary line is the ability to make the savings in expense and obtain the salvage flowing from actual abandonment. To be denied this opportunity to reduce costs for five years is a heavy burden and one which has never been imposed on railways before. It is submitted, therefore, that the regulations governing non-grain branch line abandonments should not be made more onerous than they are now.

Under Section 314C(2b), p. 22, traffic information may be required by the Commission for any lines in the area of a line being considered for abandonment, and such information will be treated by the Commission as confidential. However, Section 314D(5), p. 26, will allow the Commission to publish such information in support of a recommendation for rationalization between railway systems. (Sec. 314D(1), p. 25.) This could penalize a railway competitively by giving out its confidential traffic position on lines it does not intend to abandon.

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There is no question of the need for the Commission to obtain traffic data covering an area it is examining for rationalization of lines. Such information quite properly is confidential and should remain so. It is manifestly contradictory to say in one section (Sec. 314C(2b), p. 22) that the information may be requested and will be treated as confidential and, at the same time, include a further provision (Sec. 314D(2), p. 26) authorizing the Commission to breach that confidentiality.

For the new Commission to exercise sound judgment, the information it requests must be capable of being given without being overshadowed by the possibility that it will be made public. If this is not so, the new Commission's purposes will not be well served and could be inhibited.

Recommendations

1. Section 314B should be amended so that applications may be made for line abandonment without having to wait for a formal order or declaration from the Commission designating a particular area for such action. Otherwise, railways could be prevented from claiming losses on uneconomic lines for substantial periods of time.

2. Section 314C(1), p. 22, should be amended to provide that the Commission will find a line to be *uneconomic*. This could be accomplished by the addition of the words "uneconomic and is" after the word "is" in line 13 of Section 314C(1).

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3. Section 314C(4b), p. 24, should be amended to read:

"(b) not later than *six months* from the date of the order."

4. Section 314D(5), p. 26, should be deleted.

* * *

(B) *Uneconomic Passenger Services*

The MacPherson Report plan to lift the burden of passenger losses from the freight shipper and the railways was to pay an immediate subsidy for five years on a declining basis. The Report also said that railways should be allowed to discontinue uneconomic services where they could prove actual loss and that there was an alternative highway available in the area. In addition, the MacPherson Report said that where a railway is required to retain an uneconomic service by reasons of public policy or necessity, it should be reimbursed for its cost of doing so.

Bill C-231 provides for a general transitional subsidy reducing over eight years and that the railways may discontinue uneconomic passenger services by filing an application in the same general manner as is required for uneconomic branch lines, except there is no requirement that they be considered on an area basis. (Sec. 314I, p. 29.) Services found to be uneconomic and not required to be retained shall be discontinued on a date fixed which cannot be earlier than 30 days nor longer than two years. (Sec. 314I(7), p. 31.) Those which should not be discontinued are to be reviewed at intervals not exceeding five years.

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Where a passenger service has been found to be uneconomic and should be discontinued, the railways should not be denied for two years the benefits which should flow from such discontinuance. Such delay seems unnecessary as in such instances there is no related investment (non-railway) to be retired over a period. It is important that the railways not only receive the savings from discontinuance as quickly as possible but be able, as well, to reallocate the equipment thereby released. Further, it would seem to be a departure from the general objectives of the Bill that the railways be placed under greater regulatory restrictions in this regard under the new Bill than is the case under the present Railway Act.

As in the case of branch lines, there is provision for determining actual loss (Sec. 314I(4), p. 30) but not for finding the service uneconomic as required by the claim section. (Sec. 314J, p. 32.) This should be clarified by an amendment.

The provision for payment of claims for losses on uneconomic passenger services which are to be retained is limited to recovery of 80% of such loss. There is no apparent justifiable reason for choosing 80%. The MacPherson Report said:

"In the interim it is, we repeat, most important that the burden resulting from losses on railway passenger services be lifted from the freight shipper." (Vol. I, p. 46)

And—

"To the extent that there remain after this five year period rail passenger services operating at a loss but *essential because of a lack of alternate surface transportation* it shall be the responsibility of the nation to bear the burden of that loss." (Vol. I, p. 47)

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There is no mention here of 80% or of anything else but paying *the loss*. A partial payment does not provide any incentives to the railways in dealing with such services. Yearly examination by the new Commission of the components of each loss service will form the best method of getting rid of such services as are no longer required. It should be apparent that even payment of total actual loss would not satisfy the long-term requirements of maintaining a particular service. A good case in point to illustrate this is the commuter service. If, for example, the Commission were to pay the loss suffered in the operation of a particular commuter service, this makes no provision for replacement of equipment, rehabilitation of line, allocation of capital for facilities required only for that service. In other words, it would be an inequity to expect the railways to maintain losing services if there were no provision for not only the loss but the capital replacement as required.

Also, there is no provision for payment of any loss where a highway service (operating at a loss) has been substituted for a larger-loss train service. This will inhibit railways from reducing train losses by substituting service and thus cause an unnecessary drain on the public treasury.

The definitions in Section 314I(1), p. 29, are not clear. The Commission should be empowered to designate whether or not a particular train is a passenger train under the section if there is doubt. But subsection (1a) seems to require an order from the Commission before any application respecting a

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particular train could be made at all. Also, there does not seem to be any need for a definition of "passenger trains" as well as of "passenger-train service" because the Bill does not use the term "passenger-train" anywhere else. In Canadian National's view the initiative in deciding whether or not a train is a passenger train should be left with the railways. There should, however, be provision for the Commission to declare a particular service or some part of it to be a proper subject for payment of loss, should an application be challenged on that ground.

Recommendations

1. Section 314I(7b), p. 31, should be amended to read:

"(b) not later than *three months* from the date of the order."

2. Section 314I(4), p. 30, should be amended to provide that the Commission will find a service to be *uneconomic*. This could be accomplished by adding the words "uneconomic and is" after the word "is" in line 35 of Section 314I(5), p. 30.

3. Section 314J(4), p. 32, should be amended to provide for payment of "actual loss" rather than 80% of loss.

4. Section 314J should be amended by inclusion of a provision which would allow railways which have substituted service by highway in order to reduce a loss on train service to recover the remaining loss on the substituted service.

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5. The definition of "passenger trains" should be deleted from Section 3141(1a), p. 29, and that of "passenger-train service" changed as follows:

"'passenger-train service' means a service provided by a company by means of the operation of one or more trains for the carriage of passengers, mail or express or any combination of them, and the Commission may declare by order any such service or part thereof to be a passenger-train service for the purposes of this section and Section 314J."

* * *

(C) *Uneconomic Grain Traffic*

The MacPherson Report found losses on the carriage of Crows Nest Grain at statutory rates to be a burden. The solution was to pay a subsidy which would give the railways their deficiency in variable cost plus a contribution to constant cost. The objective was to ensure "that the railways receive sufficient remuneration to cover costs and achieve a return on investment associated with the work performed". (Vol. I, p. 51.)

Bill C-231 retains the statutory rates and those related thereto (Sec. 328, 329(2), pp. 37-40) and provides that the Commission shall inquire into the revenues and costs of railways attributable to this traffic not later than three years after the coming into force of the Act. It will report to the Governor in Council the amount necessary to meet the costs of operation in respect of this traffic after 31 December 1969—and the Governor in Council *shall* take action on that report to provide assistance to the railways. (Sec. 329(1), p. 37.)

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In the interim, the railways receive the general subsidy under Section 469, p. 57. When any payment is made under Section 329 (1) it will be deducted from the general subsidy and be paid on an annual basis.

The At and East grain traffic was not dealt with by the MacPherson Report. Section 329A, p. 39, provides for payment of the difference between the present rates paid by shippers (found to be non-compensatory by the Board) and a level of rates to be set by the Commission from time to time. The fixed level must be "consistent" with Section 334, i.e. above variable cost. Payment will be made once a year and, until the Commission determines the necessary level, the level already determined by the Board will apply.

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CHAPTER VI

COMMODITY PIPELINES

The MacPherson Report did not consider commodity pipelines. The inclusion of Part II in Bill C-231 providing for certification, construction and operation of commodity pipelines under the jurisdiction of the Canadian Transport Commission is consistent with the National Transportation Policy.

While Part II provides for the usual matters such as how a certificate of operation is to be obtained and for the issuance of tolls and tariffs and regulation of various kinds, it does not specifically require a commodity pipeline company to submit financial and traffic reports and other statistical data to the Transport Commission. Section 88 of the National Energy Board Act, made applicable to commodity pipelines by Section 28(3), p. 13, may help but may not be wide enough for comparability with other modes. Railways are required to make such reports annually in detail pursuant to Section 391 of the Railway Act. Extra-provincial motor vehicle transport companies will be required to make returns on a great variety of financial and other matters under Section 32 of Bill C-231.

If all modes of transport are to be treated alike then commodity pipeline companies should also report to the Transport Commission in the same fashion.

The information filed with the Transport Commission by all modes should either be available to all or to none, depending on its confidentiality. At the present, highway operators have access to many railway reports but the railways have no such reciprocal right.

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Recommendation

1. Part II of Bill C-231 should be amended to require commodity pipeline companies to report their financial, traffic and other statistics to the Canadian Transport Commission on an annual basis, in the same manner as railways and other modes of transport. Such statistics as are not confidential should be made available by the Commission to all modes of transport under its jurisdiction.

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CHAPTER VII

EXTRA-PROVINCIAL MOTOR VEHICLE TRANSPORT

Part III of Bill C-231 provides for the regulation of extra-provincial motor vehicle transport by the new Canadian Transport Commission if and when it becomes desirable to regulate this mode at the federal level. Under this Part, licenses may be applied for and issued on grounds of public convenience and necessity; routes and conditions may be prescribed; tolls and tariffs filed with the Transport Commission and regulations issued with the approval of the Governor in Council covering all aspects of highway operations. At the same time, Part III has several important deficiencies.

There is no provision for protection of existing carriers' routes and service—the so-called "grandfather rights" clause. Section 22(2), p. 11, gives such protection for commodity pipelines. The same provision should be included in Part III for motor vehicle transport.

Section 317 allows "any person" to complain to the Commission that railway acts or omissions or the results of railway ratemaking may prejudicially affect the public interest. No similar provision is included in Part III to provide for a similar avenue of objection in respect of highway operators' acts, omissions or rate practices.

Another deficiency in Part III is the lack of a provision similar to that contained in Section 24, p. 12, governing the issuance of an operating certificate to a commodity pipeline. Section 24 requires such a company to show financial

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responsibility as well as the economic feasibility of the new line. Similar provisions should be included for transport companies seeking a license to operate under Part III.

Recommendations

1. Part III should include a provision similar to Section 22(2) to protect the rights of established carriers upon coming into force of Bill C-231.

2. Section 317 should be amended (or a similar provision included in Part III) to give any person the right to challenge an extra-provincial motor vehicle transport company's action on grounds it may prejudicially affect the public interest.

3. Part III should include a provision similar to Section 24, p. 12, requiring the applicant for an operating license to show financial responsibility and the economic feasibility of the proposed new operation.

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CHAPTER VIII

MISCELLANEOUS MATTERS

(A) *Part IV—Bridges*

This part refers to the Bridges Act which governs bridges other than railway bridges, such as international and interprovincial bridges, and the bridges operated by federally incorporated bridge companies. The Board today provides certain services in respect of such bridges which will now be done by Public Works. This provision, therefore, has no effect upon Canadian National's operations.

(B)

Section 362 of the Railway Act requires that unclaimed goods be kept twelve months before they can be disposed of by public auction. This time period was set many years ago, the provision first appearing in its present form in the Railway Act of 1888 (51 Victoria 1888, Chap. 29, Sec. 236).

The great increase in the volume of business done today makes this twelve-month rule an onerous requirement and existing storage space at points across the country is crowded and congested with such goods. Some relaxation of this requirement—say, to a period of three months—would be adequate and give needed relief.

* * *

October 1966.

SUMMARY OF EASTERN CANADIAN ABANDONMENT

Proposals as of August 23, 1966

NOVA SCOTIA

Date Filed	Sub.	Railroad	Between	Miles
Jan. 15/63.....	St. Peters.....	CNR	St. Peters Jct—St. Peters.....	25.5
May 25/63.....	Oxford.....	CNR	Tatamagouche—Scotsburn.....	24.4
Oct. 12/62.....	Caledonia.....	CNR	Caledonia Jct.—Caledonia.....	21.9
Jan. 31/66.....	Sunny Brae.....	CNR	Sunny Brae—End of Steel.....	12.8
Nova Scotia Total.....				84.6
QUEBEC				
Aug. 11/66.....	Lemoyne Spur.....	CNR	Brodies—St. John's.....	1.6
ONTARIO				
May 1/63.....	Penetang.....	CNR	Colwell—Penetang.....	31.8
Nov. 10/65.....	Wiaraton.....	CNR	Parkhead—Wiaraton.....	9.6
June 24/66.....	Montreal & Ottawa....	CPR	Mile 87.7—89.3.....	1.6
Ontario Total.....				43.0
Total—Eastern Canada.....				129.2

Department of Transport,
Transportation Policy and Research Branch,
October 11, 1966.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations
and/or a translation into English of the French.

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Cost varies according to Committees.

LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

STANDING COMMITTEE

ON

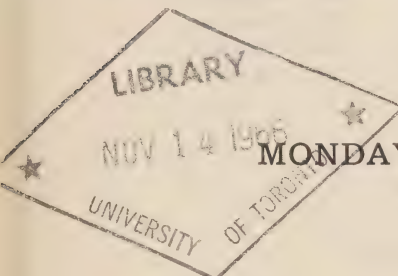
TRANSPORT AND COMMUNICATIONS

Chairman: Mr. JOSEPH MACALUSO

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 25

MONDAY, OCTOBER 17, 1966



Respecting

BILL C-231

An Act to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and to enact other consequential provisions.

WITNESSES:

From the British Columbia Federation of Agriculture: Mr. L. A. Currie, Chairman, Feed and Grain Committee; Mr. B. H. Creelman, Chairman, B.C. Feed Manufacturers Association.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE
ON
TRANSPORT AND COMMUNICATIONS

Chairman: Mr. Joseph Macaluso

and

Mr. Allmand,	⁴ Mr. Fawcett,	Mr. McWilliam,
Mr. Ballard,	Mr. Horner (<i>Acadia</i>),	Mr. Olson,
Mr. Bell (<i>Saint John-</i>	Mr. Howe (<i>Wellington-</i>	Mr. Pascoe,
<i>Albert</i>),	<i>Huron</i>),	¹ Mrs. Rideout,
Mr. Boulanger,	³ Mr. Jamieson,	Mr. Rock,
Mr. Byrne,	Mr. Langlois,	Mr. Schreyer,
Mr. Cantelon,	(<i>Chicoutimi</i>)	Mr. Sherman,
Mr. Deachman,	Mr. Legault,	Mr. Southam,
² Mr. Duquet,	Mr. MacEwan,	Mr. Stafford (25).

(Quorum 13)

¹Replaced by Mr. Chatwood on October 14, 1966.

²Replaced by Mr. Andras on October 17, 1966.

³Replaced by Mr. Éthier on October 17, 1966.

⁴Replaced by Mr. Herridge on October 17, 1966.

R. V. Virr,
Clerk of the Committee.

ORDERS OF REFERENCE

FRIDAY, October 14, 1966.

Ordered,—That the name of Mr. Chatwood be substituted for that of Mrs. Rideout on the Standing Committee on Transport and Communications.

MONDAY, October 17, 1966.

Ordered,—That the names of Messrs. Andras, Éthier and Herridge be substituted for those of Messrs. Duquet, Jamieson and Fawcett on the Standing Committee on Transport and Communications.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

REPORT TO THE HOUSE

The Standing Committee on Transport and Communications has the honour to present its

ELEVENTH REPORT

Your Committee recommends that it be empowered to engage the services of an Economist to assist the Committee in its deliberations of Bill C-231.

Respectfully submitted,

JOSEPH MACALUSO,
Chairman.

(Concurred in October 18, 1966)

MINUTES OF PROCEEDINGS

MONDAY, October 17, 1966.

The Standing Committee on Transport and Communications having been duly called to meet at 10.30 a.m., the following members were present: Messrs. Allmand, Bell (*Saint John-Albert*), Boulanger, Byrne, Chatwood, Deachman, Horner (*Acadia*), Howe (*Wellington-Huron*), Legault, Olson, Rock (11).

Also present: Honourable J. W. Pickersgill, Minister of Transport and Mrs. Rideout, M.P.

In attendance: From the British Columbia Federation of Agriculture: Mr. L. A. Currie, Chairman, Feed and Grain Committee, Mr. B. H. Creelman, Chairman, B.C. Feed Manufacturers Association, Mr. R. A. Blair, Chairman, B.C. Broiler Marketing Board, Mr. P. H. Walde, President, East Chilliwack Co-operative.

There being no quorum at 10.50 a.m., Mr. Deachman, the acting Chairman, adjourned the meeting until 3.30 p.m. this date.

AFTERNOON SITTING

The Standing Committee on Transport and Communications having been duly called to meet at 3.30 p.m., the following members were present: Messrs. Andras, Bell (*Saint John-Albert*), Boulanger, Byrne, Chatwood, Deachman, Horner (*Acadia*), Langlois (*Chicoutimi*), Legault, McWilliam, Stafford (11).

Also present: Honourable J. W. Pickersgill, Minister of Transport and Mr. Johnston, M.P.

In attendance: Same as the morning sitting.

There being no quorum at 4.15 p.m., Mr. Deachman, the acting Chairman, adjourned the meeting until 8.00 p.m. this date.

EVENING SITTING

(44)

The Standing Committee on Transport and Communications met this day at 8.00 p.m., the Chairman, Mr. Macaluso presiding.

Members present: Messrs. Andras, Allmand, Bell (*Saint John-Albert*), Boulanger, Byrne, Chatwood, Deachman, Éthier, Herridge, Horner (*Acadia*), Howe (*Wellington-Huron*), Langlois (*Chicoutimi*), Legault, Macaluso, McWilliam, Olson, Rock, Stafford (18).

Also present: Honourable J. W. Pickersgill, Mr. Jamieson.

In attendance: Mr. Currie and Mr. Creelman.

The Chairman introduced the witnesses and asked Mr. Currie to present his brief on behalf of the British Columbia Federation of Agriculture.

Moved by Mr. Horner (*Acadia*), seconded by Mr. Andras,

Resolved:—That the Table entitled “Intermediate Point Table” on page 4 of the Brief be inserted in the record in sequence.

The Chairman invited the members to question the witnesses.

At 9.20 p.m., there being no further questions, the meeting adjourned until 9.30 a.m., Tuesday, October 18, 1966.

R. V. Virr,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

MONDAY, October 17, 1966.

20:02

The CHAIRMAN: First of all, I would like to extend a welcome to our witnesses here today from the British Columbia Federation of Agriculture. On my immediate right is Mr. L. A. Currie, Chairman of the Feed and Grain Committee and Mr. B. H. Creelman, Chairman of the British Columbia Feed Manufacturers Association. Mr. R. A. Blair, Chairman of the British Columbia Broiler Marketing Board and Mr. P. H. Walde, President of the East Chilliwack Co-Operative had to return to British Columbia. Mr. Currie and Mr. Creelman, may I offer you the Chairman's apologies for keeping you here this evening and for the Chairman's absence this morning and this afternoon.

The brief is before us and we will proceed with Mr. Currie.

Mr. L. A. CURRIE (*Chairman, Feed and Grain Committee*): Thank you very much, Mr. Macaluso.

Gentlemen:

We appear before you today to suggest ways in which legislation regarding rail freight rates and freight assistance on feed grains can be improved to the benefit of both the farmers of British Columbia and the Government of Canada.

We represent the B.C. Federation of Agriculture, which organization's over 14,000 members contains practically 100 per cent of the farmers and farm organizations purchasing and growing feed grains in the province of B.C.

The proposed new Bill Number C-231 to implement the National Transportation policy for Canada is now under study and we wish to point out the following recommendations as these are very important to the livestock and poultry producers in British Columbia.

For years there have been anomalies in legislation affecting the movement of feed grains into and within B.C., and farm organizations and government have been searching for ways to remove these conditions without too much real success.

To introduce our proposal we will first summarize past legislation and regulations which lead up to the present situation.

The Crow's Nest Pass Agreement, Statutes of Canada 1897, Chapter 5, as later governed by the 1925 amendment to the Railway Act 1919, Sec. 325(5) states:

"Provided that, notwithstanding anything in this subsection contained, rates on grain and flour shall on and from the 27th day of June, 1925 be governed by the provisions of the agreement made pursuant to Chapter 5 of the Statutes of Canada 1897, but such rates shall apply to all such traffic moving from all points on all lines of railway west of Fort William to Fort William or Port Arthur over all lines now or hereafter constructed by any company subject to the jurisdiction of Parliament."

This was followed by the Board of Transport Commissioner's Order No 36769 in August 1925 and General Order 448 of August 25, 1927, which based on the "unjust discrimination" clauses in the Railway Act found that such unjust discrimination had been created against Pacific ports when compared with freight rates on all grain moving East by the Crow's Nest Agreement. They then righted this in part, but only insofar as grain for export was concerned. General Order 448, Sec. 2 read as follows:

"That the rates on grain and flour from Prairie points to Vancouver and Prince Rupert for export shall be on the same basis as the rates to Fort William, but in computing such rates, the distance from Calgary to Vancouver via the Canadian Pacific Railway shall be assumed to be the same as from Edmonton to Vancouver via the Canadian National Railway, namely 766 miles."

By this ruling the Board of Transport Commissioners established Vancouver as a like terminal point to that of Fort William, but under the Crow's Nest Agreement *all grains* going east to the terminal point Fort William gained advantage of the special rates established under this Agreement, yet based on unjust discrimination the Board of Transport Commissioners only established like rates to the terminal point Vancouver for that portion of the grain for *export only*.

It is therefore our contention that in not granting the equivalent rates on feed grains for consumption in British Columbia to those on like grain for like distances under the Crow's Nest Agreement it in turn created an unjust discrimination by contravening sub-section 7 of section 328 of the Railway Act, Chap. 234, 1942, which in part and essence states that:

"The Board shall not excuse any unjust discrimination whether practiced against shippers, consignees, or localities, or of undue or unreasonable preference, respecting rates on grain and flour, governed by provisions of the Crow's Nest Agreement."

and it also contravened Section 317 which states:

- (1) "All tolls shall always under substantially similar circumstances and condition in respect of all traffic of the same description, and carried in or upon the like kind of cars or conveyances, passing over the same line or route, be charged equally to all persons and at the same rate, whether by weight, mileage or otherwise."
- (2) "No reduction or advance in any such tolls shall be made, either directly or indirectly, in favour of or against any particular person or company travelling upon or using the railway."
- (4) "No toll shall be charged that unjustly discriminates between different localities."

The full effects of these contraventions have not been felt because they have been partially negated by the Feed Freight Assistance policy during the past twenty-five years, but changes in this policy since February, 1955, coupled with effects of the policy which led to substantial increases of domestic freight rates have meant that feed grain freight rate costs in B.C. are on an unsatisfactory basis. Livestock and poultry feeding industries which have developed over the years have no assurance that further changes in policy will not jeopardize

their livelihood, and this uncertainty retards proper development. We therefore solicit that your Committee strongly recommend to the government that the words "for export" be deleted from Section 50 of Bill C-231, which amends Section 328 (2) of the Railway Act. This deletion would bring Sec. 328 (2) in line with section 328 (1) and would remove any different in treatment between Lakehead and Pacific deliveries. It would also mean that all grain would move to Pacific terminals at rates comparable to those under which all grains presently move to Lakehead.

If this change in rate structure be implemented, farmers in B.C. would be agreeable to feed grain assistance to British Columbia being discontinued.

The rates would, of course, have to be made applicable on a mileage basis along the line of the following table so that proportionate rates would be provided to intermediate points between prairies and Pacific coast. The table follows:

The CHAIRMAN: Mr. Currie, to obviate the necessity of reading it perhaps we could have a motion at this time to have this table printed as an appendix to the minutes and proceedings.

Mr. HORNER (*Acadia*): I move the motion.

Mr. ANDRAS: I second the motion.

Motion agreed to.

Intermediate Point Table

Prorated from CTC(F) No. W2167 Sec. 3—Distance Rates in Cents per 100 lbs.

<i>Distance</i> (miles)	<i>Rate</i> (¢)	<i>Distance</i> (miles)	<i>Rate</i> (¢)	<i>Distance</i> (miles)	<i>Rate</i> (¢)	<i>Distance</i> (miles)	<i>Rate</i> (¢)
5	2.6	100	7.7	400	15.2	700	20.0
25	4.2	200	10.7	500	16.8	800	21.9
50	5.8	300	12.9	600	18.4	900	22.6
						1000	23.2

Mr. CURRIE: The changes requested would remove from the government of Canada both the actual cost of the subsidy as well as the administrative expense caused by the application of a feed grain assistance policy to B.C. It would also eliminate the problem we have had in the past in operating under a system primarily geared to eastern Canada where alternative water and truck competition kept rate increases on a more realistic basis.

Two final points that must be emphasized are: First, that much of the grain that is fed in British Columbia is initially accepted by the railways at point of shipment as export grain at export rates. It is then drawn from Pacific coast terminal elevators to fill orders for domestic consumption and then an adjustment is made to the railways allowing them the increase between export and domestic rates.

The second point is that even the total of all domestic feed grain shipped into and within the province is such a minute percentage of the total grain shipped for export through B.C. that to follow our recommendation and now

ship all grain at the export rate should have only a very minor effect on the revenue of the three railroads concerned.

In closing this presentation, we reiterate that section 50 of Bill C-231 should be amended so that the rates on the shipment of all grain, including millfeeds, going east to "Head of the Lakes" terminals shall be applied to all grains including millfeeds, moving west to Pacific terminals.

To have already decided that export grain going to both terminals should carry the like Crownsnest rates, was justified and prevented unjust discrimination, but to ship feed grain to eastern terminals at Crownsnest rates while the shipment of like grain for like purposes going like distances in like railcars to the Pacific coast should carry a higher captive tariff rate can only be defined as a continuation of unjust discrimination which we are sure was not the intent of those who framed Bill C-231.

While it does not directly come under the terms of reference of your committee, your action in correcting this unjust discrimination will also result in a saving to the government of Canada of some \$2 million per year in subsidy and administration that will otherwise be paid out in feed grain assistance to B.C. or whatever like policy the government intends to carry out under the proposed livestock feed assistance act.

The CHAIRMAN: Thank you, Mr. Currie.

Mr. HERRIDGE: Mr. Chairman, I think it was moved that this table, be printed as an appendix to today's proceedings. I think it would be better if it were printed in the brief, as shown, in order to explain—

The CHAIRMAN: Yes, I appreciate that, Mr. Herridge. That is what was meant. I made the error. Mr. Virr will make the correction.

Mr. CURRIE: Mr. Chairman, I would like, at this time, to state that I am a farmer in my own right, and I am not too well versed on some of these freight matters; it is true that neither one of us is a freight expert. Mr. Creelman will be answering quite a few of the questions, as well.

Mr. OLSON: Thank you, Mr. Chairman.

First, I want to say to the witnesses from the B.C. Federation of Agriculture that I find a very large measure of agreement in what you are advocating, because I believe that the MacPherson Royal Commission on Transportation obtained revenue and expenditure statistics respecting the movement of grain under the Crownsnest pass agreement that challenged the railways' costing to the extent that they reduced a very large alleged loss of \$17 million to a net profit of some \$500,000. I am not saying that the commission accepted that figure, but the fact is that they did accept something quite apart from what was included in the cost, as far as the railways were concerned, for the movement of this grain.

I appreciate that you gentlemen are not, nor do you profess to be, experts on freight rates and so on, but in coming forward with this proposal that these words "for export" be removed, so that the Crownsnest rates would apply to all grains moving into British Columbia, and also the fact that you have done some calculation to the effect that it would save the government of Canada some \$2 million, I just wonder if, when you made this proposal, you have made any calculation of what the effect on the railway's revenue would be?

Mr. CURRIE: The effect on the railway would be slightly greater than that. The subsidy that we are receiving at the present time under the feed grain assistance policy would not back the freight costs down quite to the export rate. Do you follow me?

Mr. OLSON: Yes.

Mr. CURRIE: In other words, what the farmers are now paying, even after they subtract the subsidy, is a little more for this feed grain than if they got it under the Crowsnest pass agreement and paid the Wheat Board whatever their selling price is.

Mr. B. H. CREELMAN (*Chairman, B.C. Feed Manufacturers Association*): The feed grain assistance, I think, last year was \$1,900,000. That is why we chose this round figure of about \$2 million.

Mr. OLSON: You said a "little". I am not asking you for a specific answer, but would it be fairly close to the same amount, that is, the total laid in cost of this grain? What do you mean by a "little" more than \$2 million?

Mr. CURRIE: Mr. Olson, grain moving from Calgary to the port of Vancouver moves at \$4 a ton. I am only using the point of Vancouver and the point of Calgary as an illustration, as there are some differences that have a bearing. The cost of the grain, taking into consideration the subsidy that is provided by the federal government, is \$4.40 a ton; the difference is 40 cents a ton. However, there is not too much grain actually moved from Calgary; it is moved from points farther east—maybe 100 or 200 miles, in the farming areas—and on that portion we pay the full difference between the export and the domestic rates, so that it might be another dollar. That is the nebulous factor here. It might be another 50 cents; it might be another dollar; it might be \$1.50, depending on from where the Wheat Board says we can draw the grain.

Mr. OLSON: You would not like to give us an estimate of how much the effect would be on this revenue? I appreciate your position.

Mr. CREELMAN: I will try to answer it this way. In the 1964-65 crop year there were 227,554 tons on which freight assistance was received in British Columbia.

An Hon. MEMBER: Could you give me that figure, again, please?

Mr. CREELMAN: Two hundred and twenty seven five hundred and fifty-four tons on which freight assistance was paid. We think that we are paying about \$2 a ton more in freight than the average under the Crowsnest rate. So, if you said \$227,554 x 2 it would give you \$450,000.

Mr. OLSON: Well, I do not quite follow that argument because if it was \$1.80 a ton over the Crowsnest rate and there was a subsidy of \$2 million, then you would be worse off, would you not?

Mr. CURRIE: Well, there is a subsidy of \$2 million plus the additional that it costs the railway to haul it, which would take it up to about \$2½ million or somewhere in that area.

Mr. OLSON: Yes, I understand now.

Mr. PICKERSGILL: I think I know the figures; it would represent approximately a \$2½ million loss to the railways.

Mr. OLSON: Loss, yes.

Mr. PICKERSGILL: Loss of revenue they are now getting on the figures you give and about \$2 million savings in treasury.

Mr. OLSON: One further point on this. You are now speaking though almost exclusively of the grain that is moved from the prairies into the Vancouver terminals and then out again, are you not?

Mr. CURRIE: No, not necessarily so. I used Vancouver because I thought it was an easier point to explain. Most of the feed is fed in the Fraser Valley but not all of it. Some goes over to Vancouver Island and I understand that Crownsnest rates apply to the terminal in Victoria but the bulk of it is in this feeding area, the terminal area.

Mr. OLSON: To apply the formula you have suggested here in line with the table which you gave us on page 4 there would be some additional erosion of railway revenue moving from the prairies into some of the eastern cities and areas in British Columbia, would there not—In the East Kootenays, for example?

Mr. CREELMAN: No, not more than in Kamloops because we are suggesting that this table cover places like Kamloops. That is what you are referring to?

Mr. OLSON: Yes.

Mr. CREELMAN: All the places in British Columbia are now covered by freight assistance; not as much as the Vancouver area gets but according to the formula.

Mr. CURRIE: And they are also on a mileage basis.

Mr. OLSON: Mr. Chairman, I have only two other short questions. You say three railroads; the C.N.R., the C.P.R. and which other one?

Mr. CURRIE: The Pacific Great Eastern.

Mr. OLSON: They do not apply there, do they?

Mr. CURRIE: No, but by competition they would apply.

Mr. OLSON: Well, that is what we refer to.

Mr. CURRIE: Yes, that is what we refer to.

Mr. OLSON: I see. I notice you use a term that I have had something to say about in this Committee during the last few days, you call this "captive" tariff. Do you regard feed shipments into British Columbia as a captive market source as far as transportation is concerned?

Mr. CURRIE: Yes, we do. Our position is probably most clearly defined in the comprehensive study recently released on feed freight assistance by the Canadian Agriculture Economic Research Council, which reads as follows:

The latest revisions to the feed freight assistance policy in 1964 authorized payment of the subsidy on truck shipments in eastern Canada but not in British Columbia. The reason for this difference is quite significant. An important factor is the transportation clause in the leases issued by railways to the country elevators in the Prairies and to some of the mills and elevators at feed grain destinations. Most, if not all, country elevators are on railway property and are bound by their lease to ship by that particular carrier.

Two types of lease are common; the older type which predominates in the Peace River Block, gives the railway an outright monopoly; the newer type instead gives the railway the traffic provided it can match the rate and service of competing carriers. A truck line might undercut the rail rate and claim access to the elevator but, by matching this rate, the railway would have regained its monopoly position.

Mr. OLSON: Mr. Chairman, I would like to ask one final question. You do not believe that you have any effective alternative to moving feed by rail?

Mr. CURRIE: No, we definitely do not. Apart from this we do not think it is feasible to supply British Columbia with truck haulage. The railways provide a service which we do not think the trucks could approach. When you have bad weather conditions the trucks just do not get through and the volume of feed that we require would take a tremendous fleet of trucks to keep that sort of volume moving. We feel that this is a function that should be provided by railroads.

Mr. OLSON: Mr. Chairman, I will pass.

Mr. DEACHMAN: Mr. Chairman, I think many of the questions which I had planned to ask have been well covered by Mr. Olson. I want to ask a couple of questions even if they are reviewing ground because I think they are important.

As I understand it, Mr. Currie, grain of all kinds moving from the prairie point to the head of the lakes goes at one rate, and that is the Crowsnest rate. At the same time grain moving westward to the Pacific coast goes at two rates, one of which is the Crowsnest rate or export rate and the other is a domestic rate or a feed grain rate. Is that correct?

Mr. CURRIE: I do not think it is a feed grain rate, it is a domestic rate. There are two rates.

Mr. DEACHMAN: A domestic rate.

Mr. CURRIE: I believe that flour moves at that rate—

Mr. DEACHMAN: Now, without reference to the assistance, can you tell us exactly what is the rate in each case. Let us take the point of Calgary which you mentioned a while ago. What is the export rate or Crowsnest rate, first of all, to Vancouver; and, by comparison, what is the domestic freight rate?

Mr. CURRIE: I will let Mr. Creelman answer this question.

Mr. CREELMAN: At Calgary the export rate or prorated is 20 cents a hundred pounds.

Mr. DEACHMAN: It is a hundred pounds or \$4 a ton to put it another way.

Mr. CREELMAN: Or \$4 a ton. The domestic rate that we pay, apart from the freight assistance, is \$13 a ton or 65 cents a hundred.

Mr. DEACHMAN: Thirteen dollars a ton?

Mr. CREELMAN: Yes. Now, Edmonton, the export rate is 20 cents a hundred—

Mr. DEACHMAN: —four dollars—

Mr. CREELMAN:—and the domestic rate is 72 cents a hundred.

Mr. DEACHMAN: —72 cents—that is 14—

Mr. CREELMAN: Fourteen dollars and forty cents.

Mr. DEACHMAN: Fourteen dollars and forty cents. So, looking at Edmonton and Calgary as the points of shipment to the coast, the difference between the export rate and the domestic rate is running from \$9 to \$10.40 a ton and the freight rates from those points eastward for the same commodities to the head of the lakes are the same.

Mr. CREELMAN: That is right.

For your information the rate from Edmonton to Fort William for either domestic or export—and you know how much farther it is from Edmonton to Fort William than it is from Edmonton to Vancouver—is 26 cents a hundred pounds Crowsnest.

Mr. DEACHMAN: Crowsnest 26 cents. That is both the domestic and the export rate.

Now, if the assistance were not paid and the rates were equalized, how is it you propose that the railway would absorb the loss of revenue of from \$9 to \$10.40 a ton on the Calgary rate, let us say, or the loss in revenue from the movement westward.

Mr. HORNER (*Acadia*): Is there any loss?

Mr. DEACHMAN: They are going to lose dollars. There appears to be—

Mr. HORNER (*Acadia*): Have you ever heard of volume business?

Mr. DEACHMAN: Let me deal with the witnesses, Mr. Horner. Mr. Chairman, I have not the slightest doubt of Mr. Horner's capability of asking the witness questions when his time comes. My question is: How do you see the rate being equalized, and what is your exact proposal?

Mr. CURRIE: We have no proposal. We are just asking that the rate be equalized. We are appearing before you and we are asking that the domestic rate westward be equal to the export rate westward, as it is in the domestic and export in the eastward movements.

Mr. DEACHMAN: In other words, what you want to see is a westward rate which is, let us say, twenty cents from Calgary westward for both export grain and domestic grain, and twenty-six to head of the lakes for domestic grain and export grain. Is that correct?

Mr. CURRIE: Yes, that is correct.

Mr. DEACHMAN: And the subsidy would be removed?

Mr. CURRIE: If we get this treatment we are willing, in the province of British Columbia, to forego this subsidy.

Mr. HORNER (*Acadia*): What amount is the subsidy?

Is it \$5 in a ton or \$6? Can you give us some idea?

Mr. CURRIE: It is the difference between the actual domestic rate from Calgary, Edmonton, or Lethbridge, whichever is the lower, to Pacific coast points, less \$4.40 a ton, and it amounts to \$8.60 a ton to Vancouver.

Mr. HORNER (*Acadia*): In other words, it pretty well uses up the \$9 and \$10 that the former question was focused on?

Mr. CREELMAN: All except forty cents from Calgary. But from Edmonton there is \$1.80 difference, because there is that \$1.40 more money.

Mr. HORNER (*Acadia*): You suggested, Mr. Currie, that you would prefer not to see trucks handle any of this grain. By your fear, were you substantiating the claim in Bill No. C-231 that in order to qualify as a captive shipper the railroad must move 100 per cent of the commodity? Is this your fear?

Mr. CURRIE: We feel it is a fact. We are aware of this being in the bill, but we feel it is a fact, arising from the statement of this man, Kerr, and from the actual physical. . . It is true that the odd truck-load could be moved in, but to undertake to supplant the railroad—which they might—would be a major undertaking.

Mr. HORNER (*Acadia*): I can remember back a few years. Let us go back ten or eleven years. You would find that some trucks did move feed grain across the border of Alberta and British Columbia, which is contrary to the Wheat Board Act, and this was closely watched—So there is a possibility that some trucks could move some of it.

Mr. CURRIE: What you are referring to—and we know nothing of this—is non-Board grain going over the border. Of course, that is against the law.

Mr. CREELMAN: That is against the law. We were offered thousands of bushels of Alberta grain quite a number of years ago. The farmers came into our place and even offered to put a grinder in and make screenings so that they could move it, but we would not touch it. We never took a bushel of it.

Mr. HORNER (*Acadia*): I am not doubting that you never took a bushel of it. What I am saying is that at one time in the past trucks showed an eagerness to get into the business. Would you agree to that—because of the market price, as Mr. Gordon was saying?

Mr. CURRIE: Yes; but it was an illegal operation and probably was lucrative.

Mr. HORNER (*Acadia*): I am not saying that it was not a legal operation. What I am saying is that, at one time, if it had been legal and if it could have been sold, there was a desire to move grain by truck.

Mr. CREELMAN: Let me say this, that there was a desire—and probably there is today—to move perhaps a truckload a day, but that would do us no good.

Mr. HORNER (*Acadia*): It would do you no good specifically when this bill says that the railroads, in order to qualify a person as a captive shipper, must have 100 per cent—not 80 per cent, not 90 per cent—but must have 100 per cent.

A further question, referring to the part on page 3 where you say that the feed grain assistance policy has been changed a number of times since February, 1955: Could you outline to the Committee a few of the big changes that have taken place?

Mr. CREELMAN: Up until February, 1955, the freight assistance paid 100 per cent of the freight rates from Calgary, but not beyond—this Calgary ceil-

ing—for a time prior to that it was the Edmonton or Calgary ceiling—but on February 1st, 1955, the freight assistance policy was changed so that they paid all but \$5 of this.

Mr. HORNER (*Acadia*): All but \$5 of. . . ?

Mr. CREELMAN: All but \$5 a ton of the actual freight.

Mr. HORNER (*Acadia*): I see; which leave. . . ?

Mr. CREELMAN: That would leave us a dollar higher; it is \$4.40 now, so it would be sixty cents. Then on March 1st, 1957, it went to all but \$5.50 a ton. Then on December 1st, 1958, it was changed to \$5.40 a ton.

Mr. HORNER (*Acadia*): How did these fluctuations come about—by Order in Council?

Mr. CREELMAN: Yes, by Order in Council.

Mr. HORNER (*Acadia*): You do not like this uncertainty.

Mr. CREELMAN: This is basic.

Mr. HORNER (*Acadia*): And if your suggestion in the last paragraph were adopted as policy this would remove the uncertainty.

Mr. CREELMAN: That is right.

Mr. HORNER (*Acadia*): Under this new livestock feed assistance and under the old one—under the one that is now operating and the one that is proposed and is in the process of going through government legislation now—was storage cost paid on any grain stored in British Columbia?

Mr. CURRIE: No, never.

Mr. HORNER (*Acadia*): In other words, your eastern cousins were slightly better off.

Mr. CURRIE: Well, we never asked for it, Mr. Horner, because we had this rail coming in and the cars rolling out of the prairies at all times to the Pacific.

Mr. HORNER (*Acadia*): The Peace River block has a special privilege with regard to moving grain across the Alberta boundary. Am I right?

Mr. CREELMAN: I believe there is a certain area there, but we do not know about that. We buy grain from the Peace River block, but we buy if from the elevator companies who are established in British Columbia—Dawson Creek, I believe some at Pouce Coupe, and some at Fort St. John.

Mr. HORNER (*Acadia*): What do you mean when you say “we”? Is it the co-operative?

Mr. CREELMAN: No. We are a co-operative, yes, but I mean the feed trade in British Columbia buys from these people, and if grain comes in there from slightly over the Alberta boundary I think that is allowed; but I do not know of that, because we have not bought it.

Mr. HORNER (*Acadia*): You suggest here somewhere that the livestock and poultry feeding industries can develop because of this assistance and depend on it. Can you give the Committee some idea of the percentage? Is it a 15 per cent poultry industry and a 50 per cent feeding industry in B.C.?

Mr. CREELMAN: I can only speak for our own association on this matter. We have a big volume of feed business in the Fraser Valley. I would say we manufacture between 65 and 70 per cent poultry and turkey feed, the balance would be dairy and hog feed. But, it is mostly dairy feed and very little hog feed.

Mr. HORNER (*Acadia*): I wonder, Mr. Chairman, if Mr. Pickersgill would explain whether poultry is covered under the new livestock feed assistance legislation that is going through Parliament?

Mr. PICKERSGILL: I do not think I could because I really do not know.

Mr. HORNER (*Acadia*): I would assume that poultry are covered but it is an interesting definition of the word "livestock".

Mr. PICKERSGILL: On reflection, I am sure it is. I just have not recently looked at the bill and I do not like expressing my opinion without refreshing my memory, but I am quite positive it is.

The CHAIRMAN: Mr. Allmand?

Mr. ALLMAND: I have a comment on the point just brought up. It is possible that this brief might have been brought up before that bill was introduced in the house last week. I think the bill was only introduced last week or so. It deals with a feed grain board for British Columbia and eastern Canada. I was going to ask the witnesses if they were familiar with the bill and if it would change their brief or policy in any way.

Mr. CURRIE: Mr. Allmand, we are only familiar with the bill in very general terms.

Mr. ALLMAND: It has passed second reading and is at the committee stage now.

Mr. CURRIE: I understand that, but it is in fairly broad terms.

The CHAIRMAN: Correction; it has not passed second reading.

Mr. ALLMAND: Sure, it is in committee stage.

Mr. CURRIE: Apart from that, we still would write the same brief.

Mr. ALLMAND: I see, despite the bill you would still write the same brief?

Mr. CURRIE: Yes.

Mr. ALLMAND: That is the only question I had.

Mr. PICKERSGILL: I do not think—subject to correction—that the bill changes the levels of assistance at all. It provides a new and additional type of mechanism for dealing with problems but as far as the rates of assistance are concerned they have been very recently altered by order in council. I do not think the bill purports to alter them again.

The CHAIRMAN: Mr. Herridge?

Mr. HERRIDGE: Mr. Chairman, some of the questions I intended to ask have been satisfactorily answered. However, I want to say, before I go on to ask questions, that I heartily agree with the witness, Mr. Currie; that to move grain economically it is best moved by railroads. We have had some experience with truckers going from the Kootenay district to the prairies, hauling freight of

different types and bringing back a truckload of grain. This is only occasional and would not provide any continuous supply of grain for the persons that required it. Now, I want to get this quite clear. My first question is. If the recommendations made in this brief were accepted by the government then it means that you would be willing for the bill to be amended to delete British Columbia; that is, the application of the legislation act to British Columbia?

Mr. CURRIE: We do not know, Mr. Herridge, all the ramifications of this act; but, we are willing, as far as it applies to actual freight subsidy, to say that we will forgo it. However, there may be other ramifications of this legislation that we are not aware of. As far as the actual freight subsidy—paying part of the freight bill—is concerned, we are willing to forgo it.

Mr. HERRIDGE: My second question is: Have you discussed this question with officials of the Canadian Federation of Agriculture and what is their attitude to your proposals?

Mr. CURRIE: As you know, this bill came up quite quickly. We did not anticipate this bill coming as soon as it did. Our executive met and approved of this. Now this is a matter which is of particular interest to the province of British Columbia and no one else, and so we did not feel that it was necessary to consult the Canadian Federation of Agriculture. The Canadian Federation of Agriculture, however, is aware we are here.

Mr. HERRIDGE: Well, I think I heard Mr. Horner mention it came up very suddenly. I understand this was the subject of considerable discussion in Committee. I do not think you could say it came up suddenly. I think it has been discussed at great length and numerous witnesses have been heard.

Mr. HORNER: Not on the feed assistance bill, if that is what you are talking about, Mr. Herridge.

Mr. CURRIE: No, we are referring to—

The CHAIRMAN: You are referring to Bill No. C-120, are you not, the former railway bill?

Mr. CURRIE: Yes, that is the one we are referring to entirely. We know nothing really, except in general terms, about the other bill.

The CHAIRMAN: Mr. Byrne?

Mr. BYRNE: Mr. Chairman, is it not true that the Peace River block in British Columbia works under special regulations under the Freight Subsidy Act in transporting grain to British Columbia rather than across a provincial boundary, as suggested by Mr. Horner?

Mr. CREELMAN: No, he was not talking about that, I do not think. The federal freight assistance applies to those elevators in Fort St. John and Dawson Creek that are in British Columbia. Although the grain moves down over the Peace River, over the PGE line and not crossing the boundary, the freight assistance does apply to them because the NAR goes into Dawson Creek. Right now we are using the NAR because the PGE is on strike. It is only the grain we can get from there. There is not very much we can do about it.

Mr. BYRNE: The grain moving by NAR does not operate under the special regulations?

Mr. CREELMAN: It gets the same mileage and has the same rate from Dawson Creek to Vancouver.

Mr. BYRNE: It is applicable because it does cross a provincial boundary but that moving over the PGE is under a special regulation—

Mr. CREELMAN: Because it does not cross a boundary, that is right.

Mr. BYRNE: —because it does not cross a boundary. Do you have any recollection of trucks attempting to carry grain to the coast from the prairies under the rates applicable to the Crowsnest rates?

Mr. CREELMAN: No.

Mr. BYRNE: It would only be under the commodity rate, and the rate from Calgary to Vancouver would be—

Mr. CREELMAN: Sixty-five cents a hundred.

Mr. BYRNE: And under the Crowsnest rate?

Mr. CREELMAN: Twenty cents.

Mr. BYRNE: It is logical that trucks would not attempt to operate?

Mr. CREELMAN: It is logical that they would not attempt to operate.

Mr. BYRNE: Do you think it would be appropriate or fair, under the Freight Assistance Act, to allow trucks to operate to Vancouver carrying grain at the competitive rates or commodity rates while the railways are required to carry the grain at export rates?

Mr. CREELMAN: Well, we would not be hauling it; we do not haul any grain by trucks now. We cannot see that we would haul any by truck and we certainly would not haul any by truck if they wanted more than 20 cents if we had a 20 cent rail rate.

Mr. BYRNE: Trucks were taking grain from southern Alberta across the line into the United States, returning to Vancouver by Blane. This was done under the Canadian Wheat Board Act, is that not right?

Mr. CREELMAN: I doubt if that is true, but I am not sure about that, Mr. Byrne. I know there were a few trucks carrying grain from—

Mr. BYRNE: Coming from the Creston Valley.

Mr. CREELMAN: —Creston but that is not from Alberta, that is in British Columbia so it was not against the law.

Mr. BYRNE: Well it was determined that it was against the law and it was stopped.

Mr. CREELMAN: Yes, that was stopped.

Mr. BYRNE: That is all I had to say.

The CHAIRMAN: Mr. Creelman, why is there this great disparity of rates. I think, Mr. Horner mentioned that there was a difference in the run. Why is there this great difference between the two rates moving east and west?

Mr. CREELMAN: We think one of the main reasons is that we have no competitive rates coming into Vancouver from the prairies and the railways have been able to get this captive traffic rate up during this past number of

years. If I may explain, in 1930 or thereabouts, our member of Parliament was Tom Reid, who is now a Senator, and he made a real attack on these domestic rates, which at that time were 41½ cents from Edmonton and Calgary to Vancouver against the 20 cents, and in lieu of doing anything, the railways established what they called tariff 145—in 1931, I believe it was. Tariff 145 was a reduction in the domestic rate of 11½ cents a hundred from the prairies to Vancouver or Pacific coast points. That brought this 41 1/2 cents down to 30 cents. The domestic rate was still 20 cents. We did not get the 20 cents, but we did get the 30 cent rate. That rate stayed in effect until during the war years, when they started raising rates; they kept raising these rates, and they took tariff 145 away before 1955 when the federal government was paying 100 per cent of the freight. What chance had we to complain to the railway that the rates were going up. The government was paying their way. What difference did it make to us?

The CHAIRMAN: What is the difference in the run between Calgary and Edmonton east and Calgary and Edmonton west?

Mr. CREELMAN: Length of miles you mean?

The CHAIRMAN: Yes, and terrain. Was this the whole reason for this being—

Mr. CREELMAN: No. The mountain differential was done away with.

The CHAIRMAN: I am asking about the type of terrain.

Mr. CREELMAN: We have mountains.

Mr. HOWE (*Wellington-Huron*): Mr. Chairman, in the brief it mentioned that this organisation is interested in the purchasing and drawing of feed grains in the province of British Columbia. What percentage do you grow in British Columbia and what amount of feed do you use.

Mr. CREELMAN: Practically none in the lower Fraser Valley.

Mr. HOWE (*Wellington-Huron*): What about the Peace River.

Mr. CREELMAN: Oh yes, we grow a lot of grain in the Peace River country, but it is quite a distance away and there would be a long freight haul on that. But in the Fraser Valley, where a big percentage of the feed industry is located and the feeding is done, we do not grow very much. It may be one per cent, but I am just guessing. It is a very, very small percentage of our requirement.

Mr. HOWE (*Wellington-Huron*): You are not then increasing your production of feed grains out there?

Mr. CURRIE: There is no place to go with it.

Mr. HOWE (*Wellington-Huron*): It is a little confusing to me. Kamloops is quite a distance to the coast and I would like to know if they have intermediate elevators where they store grain or do you pay the full rate to Vancouver and back again?

Mr. CREELMAN: They have feed mills in Kamloops where they drop a car off and then take them on. We do not have any terminal elevators or any big elevators; they are just feed elevators.

Mr. HOWE (*Wellington-Huron*): Yes, but the rate say, to Kamloops would not be as much as to the Fraser Valley?

Mr. CREELMAN: That is correct.

Mr. HOWE (*Wellington-Huron*): Do you import any feed grain from the United States?

Mr. CREELMAN: Some corn.

Mr. HOWE (*Wellington-Huron*): Do you get any feed grain subsidy on that?

Mr. CREELMAN: No.

Mr. McWILLIAM: I would like to direct this question to Mr. Currie or Mr. Creelman. Is there any flour shipped to Vancouver and, if so, what is the rate from Calgary and/or Edmonton to Vancouver?

Mr. CREELMAN: Yes, there is flour shipped because we eat out there. Most of the mills are in the prairies. Although we are not big buyers of flour I believe there is an agreed charge, between the railways and some of the bakers in Vancouver, who are big flour users on flour shipments, and it applies to mill feeds. I think that rate varies, according to the size of the car, from 40, 45 or 50 cents a hundred from Calgary. Does that answer your question?

Mr. McWILLIAM: Thank you.

Mr. CREELMAN: They cannot use minimum transit on these agreed charges, and if it should come to the point where it does not pay them to use the agreed charge, it comes out at the domestic rate—unless it is for export. Of course, if it is for export, and they do ship flour for export out of Vancouver, that is shipped at the export rate, the same rate we are asking for.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, I would like to ask a question about the mechanics of this. I know there is a lot of bookkeeping and policy involved in this whole business, but you say that most of this grain goes as export grain under export rates to the terminals in British Columbia. I take it most of the terminals would be in Vancouver.

Mr. CREELMAN: Vancouver has most of them, but Westminster, Prince Rupert and Victoria has one.

Mr. BELL (*Saint John-Albert*): In other words, the grain moves from the western provinces into Vancouver as export grain under export rates and then it is re-allocated to the different areas as domestic feed grain and an adjustment is made on the rates. I would like to ask you how this adjustment is made. Are the railways allowed to change their rates to the so-called livestock producer or is there some sort of government bookkeeping envisaged in the feed grain assistance regulations or the livestock feed assistance regulations.

Mr. CREELMAN: I will try to answer that question. In the first place, a lot of our grain comes direct from the prairies to us. We are 25 miles out of Vancouver, so it does not go into the elevator. It may be shipped from Calgary, Airdrie, or any point in the prairies, for export, but on the way out the Alberta wheat pool, the United Grain Growers, or whoever we bought it from find that they have that No. 5 car that we want, and they divert it to us enroute. When the railway bills us, after it is diverted, we pay the domestic rate. Now there is quite a large amount of this grain that does go into the elevator; it may go into the elevators and stay there for six months, but when it comes into the elevators it goes in at the export rate. When the terminal elevator ships that grain to us in Cloverdale or Victoria or elsewhere, they then have to turn and

pay the railway the difference between the export and the domestic rate on that particular amount of grain that is in that pile and they are still waiting for the tariffs and the weight. It may come out two or three times, but they have to go back. We have had examples of getting cars from Vancouver out of the elevators that came in there six months to a year previously, one of three cars, and they pay the railway a third or so many thousand pounds out of this car at the additional rate. They hold the rest of it for the export rate, and so on, until they get the amount that we got.

Mr. BELL (*Saint John-Albert*): And they in turn recapture this money under the government subsidy.

Mr. CREELMAN: There is no government subsidy; the government subsidy is paid to us, the feed trades, who pass it on to the consumer.

Mr. BELL (*Saint John-Albert*): Well, that is what I meant. Have you ever made any representations before along these lines to the railway or the government?

Mr. CREELMAN: For this export rate?

Mr. BELL (*Saint John-Albert*): No, along the lines of your proposal here. Do you want the indefiniteness taken off your own position?

Mr. CREELMAN: No.

Mr. BELL (*Saint John-Albert*): I was just wondering if this is a new idea.

Mr. CURRIE: No. We have made several applications whenever the opportunity was available. I think it was approximately ten years ago, I am not sure of the date, we prevailed upon the provincial government to appeal these two rates to the Supreme Court of Canada and the Supreme Court of Canada found against the province of British Columbia. We were told that the case was lost on the technicality of what is discrimination and what is unjust discrimination, and who can say that it is unjust. That was the reason British Columbia lost the case. Mr. Creelman appeared before the MacPherson Royal Commission with a brief similar to this.

Mr. BELL (*Saint John-Albert*): Well, Mr. Chairman, I think someone will have to cost this as far as the railways are concerned. I think further that some ambitious person should bring this matter up when the other legislation comes up again to make certain that the position which you suggest, alongside the new livestock feed assistance act, is not constitutional and the exception that we might make here would be in conflict with the new act.

Mr. CURRIE: We cannot say that our request here will be in conflict with the new act. We could be wrong but as far as we can see there will be no conflict. We are willing to forego the monetary subsidy. There may be other things in this act that may be of value to us. We are not saying that we do not want the act but we are willing to forego the financial subsidy and it would place our industry we feel, on a sounder basis.

Mr. HORNER (*Acadia*): Mr. Creelman, is there any feed freight assistance paid now on the grain moving out of the Peace River into the southern part of B. C.? When I say the Peace River, I mean that portion lying within the province of B.C.

Mr. CREELMAN: Yes.

Mr. HORNER (*Acadia*): That is what I thought.

Mr. CREELMAN: Yes, definitely.

Mr. HORNER (*Acadia*): With regard to trucking, do you believe that if the trucks got the statutory rate or the going rate plus the twenty cents a hundred, which Mr. Byrne was suggesting earlier plus the feed freight assistance they would haul the grain? I am not referring to trucks moving grain from Calgary down to Vancouver: I am referring to trucks moving grain from Calgary across the border to Kamloops or somewhere, the short haul. I am not saying that trucks will compete for one hundred per cent or for any great portion of the trade but I am wondering. I want you to help me or to tell me that it is not necessary because I am questioning the necessity for Bill No. C-231 to maintain that the railroads must have one hundred per cent of the trade before they will accept the captive position of the shipper why, therefore, can the trucks not have twenty per cent, the short haul? Mr Byrne suggested earlier that no truck would haul for twenty cents from Calgary to Vancouver. I never at any time suggested or thought a truck would, but a truck might haul for twenty cents plus the \$8.60 subsidy that is paid by the federal government on that same grain. It might not get the full subsidy if it hauled the short distance but it would still get a goodly portion of it. Under this particular bill all the railroads have to say is "Well, he is not a captive shipper because he is only prepared to give us 96 per cent of this trade and the other 4 per cent is going to move out just across the border".

Mr. CREELMAN: Mr. Horner, I do not think we are talking about the captive traffic today. We say it is captive traffic because it is, but we are not talking about captive traffic. We are talking about the export and the domestic rate which eastern Canada enjoys and we do not.

Mr. HORNER (*Acadia*): I agree. I am trying to get you to say something to substantiate by beliefs. I agree that your brief does not particularly do so. You mentioned your captive position. I am willing to admit I am trying to make the best possible use of you as a witness for my case. I readily admit that.

Mr. CREELMAN: I cannot answer you.

Mr. HORNER (*Acadia*): I do not deny that at all. I would be a very poor debater if I did not.

Mr. CREELMAN: That is all right. I would like to tell you the volume of business that goes over the railroads to the Pacific coast in comparison with the volume that we use for domestic purposes. In the crop year 1964-65 there was exported from the Pacific coast ports 5,570,279 tons and for domestic use 227,554 tons, which is 3.9 per cent of the total movement. It is a very small amount in comparison with the total volume and also a very small amount in comparison with the volume of business that is for domestic use in eastern Canada that goes to the lakehead at the one rate, which is the same rate as export. They use much more feed in comparison to their exports in eastern Canada than we do.

Mr. HORNER (*Acadia*): You are familiar with the Kerr Report, you mentioned it. Do you believe if the Kerr Report were accepted and the transport commission that arises out of this bill were evolved, that this would be one of the cases where the transport commission could study and make rulings on whether or not an increase or direct subsidy should be paid to equalize the

freight rates between export grain and grain shipped for domestic use? Here we have an agricultural research council which, from straight economics, says, that feed freight assistance should be phased out.

Mr. CREELMAN: That is what Kerr says.

Mr. HORNER (*Acadia*): That is what Kerr says. Let you and I just accept that as a temporary basis. Now in phasing that out we have a transport commission formed. The transport commission can determine at any time a given problem is presented to it whether or not the railways should have a subsidy for the movement of that commodity. I see the minister shaking his head. Let us suppose the government—I would hope the government would be interested enough—if they decided to phase out the feed freight assistance, which has been proven uneconomic, that they would refer this to this new commission and could they then not award a subsidy to the railroads to compensate them for their proposed loss on this small amount of grain, 3.9 of the total, and the extra billing involved? Do you think that your argument will be sound if this transportation commission was set up? What you are saying here is that we will do away with the feed freight assistance. If the government works from a purely economic point of view, and accepts the Kerr report, it is being phased out, would you then have a strong argument to go to this new Commission that is set up and ask them to award the railways out of the federal treasury a subsidy to cover that portion of the freight on feed grain in your province which is the difference between domestic grain and export grain?

Mr. CREELMAN: I do not know, Mr. Horner, whether we would or not. I have not looked at that possibility. I thought that we would be under the low export rate to Vancouver and the commission is going to look at those rates in the next three years and decide whether they are paying or not. We think they are paying. Some people do not. The Commission is going to decide that. We would like to be in with those people.

Mr. HORNER (*Acadia*): I think you and I understand that particular phase. I would like to ask you two questions quickly. Do you believe that in giving this new livestock feed assistance act passage by parliament, and the establishment of an authority to buy, store and sell feed grain, that this will be of any assistance to the feed grain industry in British Columbia? In other words, do you want this authority to move right in and buy feed grain for you, store it for you and then turn around and sell it to you when you want it?

Mr. CREELMAN: We do not think that is necessary for us in British Columbia. We can get grain from the Wheat Board through the regular channels at any time of the year. There is no advantage in our moving it. We have no storage problem because it can be stored either in the prairies or in the terminal at Vancouver so we do not think this is going to affect us at the present time.

Mr. HORNER (*Acadia*): Are you satisfied with the handling by the Wheat Board of the feed grain you wish to use domestically?

Mr. CREELMAN: We have been satisfied. We were a little unhappy during the rail strike but apart from that we have been happy.

Mr. HORNER (*Acadia*): The producers were too.

Mr. HERRIDGE: I have three questions to ask Mr. Currie. Earlier I asked him what the attitude of the Canadian Federation of Agriculture officials was this week and he said, if I remember correctly, that they knew you were here. By that would you say that they had no objection to your presenting the point of view of the British Columbia Federation of Agriculture?

Mr. CURRIE: I feel that way because Mr. Dave Kirk arranges all our appointments and more or less is the go-between to educate two very ignorant westerners out here.

Mr. HERRIDGE: The second question is; to give effect to your brief it should require an amendment to the Crowsnest pass agreement, is that it?

Mr. CURRIE: It requires deletion in section 328, subsection (2), of the new bill, which is a new 328 (2).

Mr. HERRIDGE: Does it not also require an amendment to the Crowsnest pass agreement?

Mr. CURRIE: No.

Mr. PICKERSGILL: It may have been superseded by legislation.

Mr. HERRIDGE: Thank you, Mr. Minister. Then would you say if your recommendations are accepted it would mean a reduction in the administrative costs of Bill No. C-231?

Mr. CURRIE: Not in this bill. It would mean a reduction in the cost of administering freight assistance for feed grain which would come under this new feed assistance bill which is being considered.

Mr. OLSON: All you are asking is those two words be dropped from subsection 328, "for export"?

Mr. CURRIE: Just those two minor words.

Mr. OLSON: Mr. Chairman, I would like to pursue this matter of the truck movement of grain which Mr. Horner brought up a few minutes ago.

The only grain in any quantity, and even that was a small proportion of the total, that was ever offered to British Columbia feeders by way of truck transport was grain that was obtainable on a non-board basis. Is that not right?

Mr. CREELMAN: Yes, that will be correct.

Mr. OLSON: The only time that was available was when there was a wide difference in the price between what the Wheat Board was paying to the producer and the surplus that some of the farmers had that they could not get in on quota.

Mr. CREELMAN: There were big differences on the prairie at that time.

Mr. OLSON: How long ago was this that this was offered to you? How long has it been since you have had such an offer?

Mr. CREELMAN: I think it was in 1954, about 12 or 15 years ago.

Mr. OLSON: Have you had any offer for any truck movement of this grain into the Fraser valley within the last five or six years?

Mr. CREELMAN: No.

Mr. OLSON: If you were successful in your submission to have those two words deleted from section 328 I suppose you would be strong supporters for the retention of the Crowsnest rate in Canada from then on, would you not?

Mr. CURRIE: We still are. We are not finding fault with the Crowsnest rate at all.

Mr. BYRNE: Mr. Currie, I would like to assure you that this will make me very happy as a British Columbian if it were possible to make the Crowsnest rate applicable to feed grain in B.C. I note on page two you quote general order 448, Sec. 2, where it says: "That the rates on grain and flour from Prairie points to Vancouver and Prince Rupert for export shall be on the same basis as the rates to Fort William, but in computing such rates, the distance from Calgary to Vancouver via the Canadian Pacific. . .", and so on. Then, in the following paragraph it says, "By this ruling the Board of Transport Commissioners established Vancouver as a like terminal point to that of Fort William". What do you mean there? Vancouver and not Prince Rupert?

Mr. CURRIE: No, we mean the Pacific coast terminal. Those that were quoted in the order and we are just asking about them.

Mr. BYRNE: You are making these like terminals to Fort William. How would this affect you if they remained as like terminals and the rate applied to either place but any hold back that you may require to Chilliwack or to Williams Lake would be charged the extra rate. As it is, coming east beyond Fort William, the feeder has to pay an additional amount or rate that is a monetary rate.

Mr. CURRIE: Mr. Byrne, we do not feel that there is any fallback, that the cars can be diverted.

Mr. BYRNE: I understand that. They feel it is exactly a like terminal.

Mr. CURRIE: The railways have the diversion charge that they can apply now on it.

Mr. BYRNE: It would not be satisfactory, in any way.

Mr. CURRIE: No, it would not be satisfactory.

Mr. LANGLOIS (*Chicoutimi*): Am I right in assuming that the livestock and poultry that is produced with the feed grain is for British Columbia consumption?

Mr. CURRIE: I am only shooting at it but I could safely say that it is between 95 per cent and 100 per cent. The only thing I can think of is there has been the very odd export shipment of broilers and I believe recently a few turkeys went to the Orient, but it is of a very, very minor nature. We consume all and, in fact, turkeys we draw from Alberta. We do not begin to produce our beef. I do not know what the percentage is. I imagine 50 per cent of the beef we consume comes from Alberta and you might say we do not produce any hogs at all.

Mr. LANGLOIS (*Chicoutimi*): I would like to take this opportunity, Mr. Chairman, to congratulate Mr. Creelman on the very fine French translation which is being provided. We extend our congratulations to their federation. We in Ottawa some times have trouble in obtaining a good French translation or, let us say, a fast one. I do not know how you managed to get one in British

Columbia but I think there is great hope for bilingualism in this country when we have people like yourselves from British Columbia who come here with a bilingual brief. At first sight it looks very good.

Mr. CURRIE: Thank you very much, Mr. Langlois. Of course we will convey this to the federation office. I do not know the person who did the translation but we were told that they were supposed to be very good. We are very glad to hear your remarks. No doubt in any future brief we present we will be making use of this same individual.

The CHAIRMAN: Mr. Horner?

Mr. HORNER (*Acadia*): Mr. Currie, I have one brief supplementary question with regard to the broiler industry in British Columbia. You have a broiler marketing board in the province, I believe?

Mr. CURRIE: That is correct.

Mr. HORNER (*Acadia*): Does this board prohibit the importation of broilers, say, from Alberta?

Mr. CURRIE: No.

Mr. HORNER (*Acadia*): It does not?

Mr. CURRIE: No. Just for your information, we have a turkey marketing board also, that has just gone into operation.

Mr. HORNER (*Acadia*): There are no tariffs?

Mr. CURRIE: No, it is still Canada.

Mr. HORNER (*Acadia*): I would not laugh. I have spent a lot of time in eastern Canada and I have seen some tariffs come up over the years.

Mr. CREELMAN: I would like to read this letter from the B.C. Feed Manufacturers Association, which I am chairman of this year. The letter is from the secretary and it endorses the brief which we presented. It reads:

Dear Sir:

This Association has directed me to advise you that we endorse the brief submitted by the British Columbia Federation of Agriculture. Our members supply almost all of the feed requirements of the livestock and poultry feeders of British Columbia. We are, therefore, responsible to the feeders in the province to exert all possible effort to equalize and stabilize the cost of grain and grain products in British Columbia. We therefore support this brief of the British Columbia Federation of Agriculture and any other submission directed towards this end.

Sincerely yours,

B.C. Feed Manufacturers Association
K. H. Cunningham,
Secretary.

The CHAIRMAN: Thank you, Mr. Creelman. If there are no further questions—Mr. Herridge?

Mr. HERRIDGE: Mr. Chairman, I may not have heard Mr. Currie correctly. I asked him previously if the suggestions contained in this brief were accepted

would that not reduce the cost of administration of the Act that is before the House at the present time?

Mr. CURRIE: It would, Mr. Herridge.

Mr. HERRIDGE: Thank you.

The CHAIRMAN: Mr. Currie and Mr. Creelman, may I thank you again on behalf of the committee for your attendance and may I also apologize for the long delay in your being heard.

I would like to bring to the attention of members of the committee before we adjourn that tomorrow morning at 9.30 the wheat pools of Alberta, Saskatchewan and Manitoba will appear before us. Wednesday afternoon at 3.30 the Canadian Manufacturers Association will appear before us. That should only take a couple of hours, I would think, on Wednesday afternoon. The CPR commences its presentation on Thursday at 9.30. We have set aside Thursday and Friday in the event we need them for a second day.

Mr. PICKERSGILL: On behalf of those of us who are here, would you make the appeal that the very large attendance we had this evening be equally large tomorrow morning at 9.30?

The CHAIRMAN: Yes. That includes the Chairman as well, I suppose. The committee is adjourned until 9.30 tomorrow morning.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

STANDING COMMITTEE

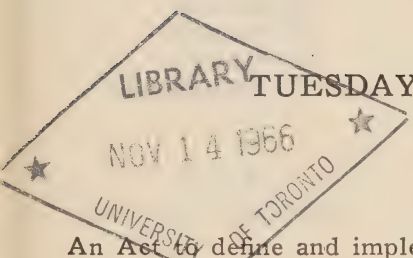
ON

TRANSPORT AND COMMUNICATIONS

Chairman: Mr. JOSEPH MACALUSO

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 26



TUESDAY, OCTOBER 18, 1966

Respecting

BILL C-231

An Act to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and to enact other consequential provisions.

WITNESSES:

From the Canadian Co-operative Wheat Producers, Ltd.: Mr. Chas. W. Gibbings, President; Mr. G. L. Harrold, President, Alberta Wheat Pool; Mr. W. J. Parker, President, Manitoba Pool Elevators; Mr. R. H. D. Phillips, Director of Research, Saskatchewan Wheat Pool.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE
ON
TRANSPORT AND COMMUNICATIONS

Chairman: Mr. Macaluso

Vice-Chairman:

and

Mr. Allmand,
Mr. Ballard,
Mr. Bell (*Saint John-
Albert*),
Mr. Boulanger,
Mr. Byrne,
Mr. Cantelon,
Mr. Deachman,
Mr. Duquet,
¹Mr. Herridge,

Mr. Horner (*Acadia*),
Mr. Howe (*Wellington-
Huron*),
Mr. Jamieson,
Mr. Langlois,
(*Chicoutimi*),
Mr. Legault,
Mr. Macaluso,
Mr. MacEwan,

Mr. McWilliam,
Mr. Olson,
Mr. Pascoe,
Mr. Rideout,
Mr. Rock,
Mr. Schreyer,
Mr. Sherman,
Mr. Southam,
Mr. Stafford (25).

(*Quorum 13*)

R. V. Virr,
Clerk of the Committee.

¹Replaced Mr. Fawcett on October 18, 1966

CORRIGENDA (*English Copy*)

Proceedings No. 23—Thursday, October 6, 1966. In the Minutes of Proceedings and Evidence—Page 1665 line 46 delete “devised” insert *advised*, there is . . . Page 1677 line 36 delete “not”.

ORDER OF REFERENCE

TUESDAY, October 18, 1966.

Ordered,—That the Standing Committee on Transport and Communications be empowered to engage the services of an Economist to assist the Committee in its deliberations on Bill C-231.

Ordered,—That the name of Mr. Fawcett be substituted for that of Mr. Herridge on the Standing Committee on Transport and Communications.

Attest.

LÉON-J. RAYMOND,

The Clerk of the House of Commons.

MINUTES OF PROCEEDINGS

TUESDAY, October 18, 1966.

(45)

The Standing Committee on Transport and Communications met this day at 9.45 a.m., the Chairman, Mr. Macaluso, presiding.

Members present: Messrs. Allmand, Andras, Bell (*Saint John-Albert*), Boulanger, Byrne, Chatwood, Deachman, Herridge, Horner (*Acadia*), Howe (*Wellington-Huron*), Langlois (*Chicoutimi*), Legault, Macaluso, Pascoe, Rock, Schreyer, Stafford (17).

Also present: Honourable J. W. Pickersgill, Minister of Transport, Honourable John Turner, Minister without Portfolio, Honourable Alvin Hamilton, Mr. Fawcett, M.P. and Mr. Don Jamieson, M.P.

In attendance: Mr. Chas. W. Gibbings, President, Canadian Co-operative Wheat Producers Ltd., Mr. G. L. Harrold, President, Alberta Wheat Pool, Mr. W. J. Parker, President, Manitoba Pool Elevators, Mr. R. H. D. Phillips, Director of Research, Saskatchewan Wheat Pool.

The Chairman introduced the representatives of the Wheat Producers Ltd.

Moved by Mr. Bell, seconded by Mr. Byrne,

Resolved:—That the brief of the Canadian Wheat Producers Ltd. be taken as having been read into the Committee records.

Mr. Gibbings read the introductory paragraphs and the summary of the brief presented by the Canadian Wheat Producers Ltd.

The Chairman invited the members to question the witnesses.

And the questioning of the witnesses being concluded at 12.30 p.m., the Chairman adjourned the meeting until 3.30 p.m., Wednesday, October 19, 1966.

R. V. Virr,

Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, October 18, 1966.

● (9.42 a.m.)

The CHAIRMAN: We have before us today the Canadian Co-operative Wheat Producers Limited. A statement will be made on behalf of the prairie farmers who are members of the three wheat pools of Alberta, Saskatchewan and Manitoba. To my immediate right are the witnesses who are Mr. Charles W. Gibbings, President; Mr. G. L. Harrold, President of the Alberta Wheat Pool; Mr. W. J. Parker, President of the Manitoba Pool Elevators; and Mr. R. H. D. Phillips, Director of Research, Saskatchewan Wheat Pool.

You have the brief before you. There is a correction to be made on page 17 of the brief in article 9, "The Question of Freight Rate Controls". In the second line "May, 1964" should read "May, 1965".

May I have a motion to print the brief as part of our minutes and proceedings?

Mr. BELL (*Saint John-Albert*): I so move.

Mr. BYRNE: I will second the motion.

The CHAIRMAN: All in favour?

Motion agreed to.

The CHAIRMAN: Mr. Gibbings?

Mr. C. W. GIBBINGS (*President, Canadian Co-operative Wheat Producers, Ltd.*): It is my pleasure to appear today as an officer of Canadian Co-operative Wheat Producers Limited whose head offices are in Regina, the centre of Canada's Prairie grain-growing region. This organization is spokesman for the 160,000 farmers who are members of the three Wheat Pools—Alberta Wheat Pool with head offices in Calgary, Manitoba Pool Elevators with head offices in Winnipeg and Saskatchewan Wheat Pool with head offices in Regina. The three Wheat Pools were founded separately in the years between 1923 and 1924 and together created Canadian Co-operative Wheat Producers Limited to act on our behalf in the grain business and related endeavors and to speak for us when there was occasion for representation.

We welcome this opportunity to appear before this Standing Committee of the House of Commons to bring you our considered views on matters relating to Bill C-231, which was given first reading in the Commons on August 29, 1966 and which when enacted will attempt as it says in its title "to define and implement a national transportation policy for Canada." We consider this a major piece of legislation and want to help in your deliberations in any way we can.

While the most of us at the Pools are laymen when it comes to transportation we do consider ourselves expert in a number of matters which will

certainly come to your attention during your consideration of this extremely important piece of legislation. We have been in the international grain business for more than 40 years and our experience is widespread. Taken together we own and operate for our member farmers more than 40 per cent of the licensed country elevator space in Western Canada and about 40 per cent of the terminal elevator space and handle about half of the total grains marketed in the three Prairie provinces. Our farmer membership accounts for about 80 per cent of all Prairie farmers. In addition either separately or together we operate livestock marketing facilities and a packing plant, mill flour, process vegetable oils, publish farm newspapers, manufacture and distribute fertilizers and other farm supplies, and maintain an insurance company. While we may not claim to be experts about transportation we do know something about what transport means to those who live and work in Western Canada, and it is from this experience we wish now to speak on the question before your parliamentary committee.

2. *Some Background Notes 1960-1966*

The Wheat Pools have long been active in public discussions of transportation questions. We have always been willing to make known our views to public enquiries of the kind now being conducted by your Standing Committee and the record attests to our many appearances. I do not intend to weary Committee members with the long list of public statements on matters relating to transportation but there were four kinds of developments during the years 1960 to 1966, which merit your attention because they have a bearing on our views about the present legislative proposals.

(i) *The MacPherson Royal Commission on Transportation*: We appeared on a number of occasions before that enquiry. Together and in co-operation with United Grain Growers Limited, another farmer-owned enterprise, we engaged a firm of transportation economists in the United States to examine arguments already before the MacPherson Commission from the railway companies and succeeded in convincing the Royal Commission at least that the railway propositions required careful study. As a result of this appearance we managed to persuade the MacPherson Commission against accepting the railway claim that railway troubles arose from the statutory requirement that they carry Prairie grain to export positions under the Crowsnest Pass rates. The MacPherson Commission concluded that while the grain rates might pose a problem for the railways there were also the other matters of branch lines, passenger services, freight costs and revenues and a variety of free services for which no one made any payment to the railways. During the enquiry the Pools also made separate appearances and offered a number of proposals to the Royal Commission, many of which appear to have been given consideration in its report.

(ii) *The Moratorium on Branch Line Abandonments Since 1962*: Immediately after the MacPherson Commission reported the railway companies began to process applications for the abandonment of a number of branch lines in Western Canada and by the summer of 1962 the Board of Transport Commissioners for Canada had begun a series of hearings across the West. The Pools appeared at hearings in each of our provinces and argued strongly against this kind of consideration for a problem which demanded an over-all comprehensive

approach. As a result of this kind of on-the-spot protest and a conference which was called in Regina on the eve of Christmas in 1962 to discuss the whole question the federal government of the day acted by summoning to an Ottawa meeting the railways, the various related government agencies and representatives of the grain handling industry of Western Canada. On that occasion the Pools led the protest against a continuation of piece-meal consideration of railway questions in the West and urged strongly that the federal government intervene to take some direct responsibility. The government said it had legislation under preparation which would attempt to implement some of the MacPherson Commission recommendations. Under pressure from the western farmers the railways agreed voluntarily to make available all the abandonment applications they had under study but not to press the Board of Transport Commissioners for an early consideration of the applications. This decision by the railways came to be known as the "moratorium" and has been continued by them voluntarily until today. On at least this one point the Pools and the railways agree: that the problems which begat the MacPherson enquiry will never be resolved within the corrective machinery that existed prior to the MacPherson report. We've both waited rather patiently for the opportunity afforded by your present hearings to consider the legislative alternatives proposed.

(iii) *Some Recommendations on Railway Rationalization*: It has been five years now since the MacPherson Commission reported and there have been three general elections and one change in the federal government. We would not want to comment on government change except to say that the fact of change plus the uproar of other general elections did little to contribute to an earlier settlement of these important questions. Having regard to this the Pools met on a number of occasions with both the outgoing and the incoming governments to keep them informed of views we believed would make their work the easier. In August 1963, we presented a document to the government of that day on the subject *Recommendations on Railway Rationalization in Canada* in which we recommended among other things a new approach, a new kind of agency and new criteria. This three-sided engagement of the question has formed the basis of our position in the years since and remains the focus of our present statement.

(iv) *Bill C-120 of September 1964*: There was little question when that legislative proposal was advanced that it was in for a stormy time because it did not meet the real issues in any realistic way. The Pools said so straight away as did a number of other governmental and non-governmental organizations and we began in earnest to work out possible alternatives. What developed is a long story and may provide little of benefit to your present inquiry. But you should know that the Pools challenged Bill C-120 on its treatment of the following questions: branch lines, Crowsnest Pass grain rates, freight rate controls including the matter of unjust discrimination in rate making, costing procedures and criteria, and the Bridge subsidy. It seemed to us at the time that these questions were of paramount importance to our farmer members and these questions still seem important to us. As a result of the activity among a number of the provinces, agreement was reached between the three Prairie provinces, British Columbia and the Maritimes to present a united front on the matter of Bill C-120. On most of the points in a joint provinces' submission to

the federal government the Wheat Pools were in total agreement and appeared before the federal government later and said so. Subsequently, the old Bill C-120 died on the order paper of the House of Commons.

3. How We Propose to Deal with Bill C-231

Until this appearance before your Committee the Wheat Pools have made no formal statement on the present legislative proposal contained in Bill C-231 which is now before your Standing Committee. It is our intention today to tell you what we think of the Bill's intent, to outline our view of its over-all transportation policy issue and to say what we think of the individual treatment throughout the Bill of such matters as have already been enumerated. We may also raise additional questions which have not yet come under general discussion.

We do not intend to be long-winded but will attempt to make our position clearly in the fewest words possible. Where we have a view different from that expressed in the Bill we do not have properly worded alternatives to offer but will confine our comment to a statement of principle. When we have finished this statement we would welcome questions from members of your Committee. If there are matters which you would like us to report on later, we are ready to make an additional appearance and to provide material in writing. In short, we wish to make the greatest possible contribution to the work of your Committee in this matter of Bill C-231.

4. The Question of a National Transportation Policy

We must say at the outset that we welcome the stated purpose of Bill C-231 which the explanatory notes contained in its printing say are "to define a national transportation policy, to spell out the objectives of that policy and provide the necessary statutory provisions for the achievement of these objectives." With that purpose we are in the fullest accord.

On the matter of transport policy two recent comments from Pool statements seem to be pertinent. In the final paragraph of our submission to the federal government on August 23, 1963, the Pools said the following:

"Railway rationalization is a serious matter. While urgently needed it will have profound consequences for the economy of Canada—once done it cannot be readily undone. The public interest, therefore, requires a carefully thought-out plan to minimize economic dislocation."

About a year later we said in a letter from the President of Canadian Co-operative Wheat Producers Limited to the then federal transport Minister that:

"As you are aware, we have said on many occasions that we consider there are many opportunities to rationalize the present railway system, and we consider such a program desirable, and that we would expect it to result in an adequate railway system, having regard to the general interests of the Canadian economy, the special interests of the transportation media, the Prairie sector and the agricultural industry."

No one would suggest it is an easy matter to establish a national transportation policy and have it work while at the same time taking account of the

special and regional interests of the transportation industry itself, the Prairie sector of the economy, and of agriculture. But we hope that is possible and we intend today to consider the proposals in Bill C-231 and to offer suggestions so that when the legislation is eventually enacted it will provide a reasonable framework within which this kind of comprehensive objective may at least be approached.

Bill C-231 would establish a new Canadian Transport Commission and give to it the major role in co-ordinating and harmonizing the operations of all carriers engaged in transport by railways, water, aircraft, extra-provincial motor vehicle transport and commodity pipelines. That is no small job to perform while at the same time having regard, as we continue to caution, to the general interests of the Canadian economy and the special interests of transportation, the Prairie region and agriculture.

We believe we have one proposal which if accepted would mean addition to the proposed legislation of provision to take account of the regional and special interests. Our proposal would be to accommodate some form of advisory function in the work of the new Canadian Transport Commission. We would hesitate to outline in detail how best to accommodate this function but some comment might indicate more clearly the direction of our thought on the matter. The MacPherson Commission recommended formation of a transportation advisory council and went into some detail about what it thought the council's function might be. The MacPherson Commission did not spell out how it would organize or structure the advisory council but did say the following:

"...the nature of its task appears to recommend that it be composed of persons vitally interested in the achievement of efficiency in transportation, chosen not so much with a view to giving representation to individual industries or geographical regions as to bringing the informed layman's mind to bear on a field which so often tends to become over-grown with the tangle of technical preconceptions."

We would allow that MacPherson has a good point in suggesting attention to the advisory function and would agree that the informed layman may have a place in the scheme of things. But we would also suggest that the expert in matters of the regional interest and the special concern should be given a hearing too. We would think that an advisory body of some sort might afford a special kind of assistance to the new Canadian Transport Commission especially when it has under consideration major questions of national transportation policy. We would urge that your Committee consider this proposal when reporting on the matter of Bill C-231.

5. The Question of Membership on the Canadian Transport Commission

A careful reading of Bill C-231 suggests that it would allow that 13 of the proposed 17 members of the new Canadian Transport Commission will likely come from the present membership of the federal transport agencies which it would supersede when Bill C-231 becomes law. We take this to mean that the chairmen and members of the Board of Transport Commissioners for Canada, the Canadian Maritime Commission and the Air Transport Board and all of their staff would be transferred to the new Commission as members and staff unless they otherwise arrange for retirement or alternative appointments. There

is no firm indication from where the other four of the 17 Commission members would come. However, Bill C-231 does say that if the present chairmen elect to be moved to the new Commission they are to assume responsibility for no less a job than chairman of one of the five or so special committees established under the Commission and that they might become either Commission president or one of its two vice-presidents.

In this connection we are reminded that MacPherson in his 1961 report said after a lengthy examination of many parts of the transportation question that his commissioners "believe that a solution to these problems requires basic changes in both public and private attitudes and policies." Bill C-231 attempts to change the basis for public and private policies. How public and private attitudes are to change depends in part at least on the composition of the new Commission. We would hope your committee members see as do the Wheat Pools the possibility of the new look in Canadian transportation as provided in the proposal of Bill C-231 being upset or thwarted by the tradition and precedent of those who may be called upon to administer the new national transportation policy. We would think that somehow provision must be made to introduce in Commission membership the new look as well as the old. Perhaps MacPherson's proposal could be utilized in this connection and three or four informed laymen be asked to join the Commission to bring their mind to bear on what MacPherson called "a field which so often tends to become overgrown with the tangle of technical preconceptions." We would hope your committee is able to report to Parliament about our concern in this regard.

6. *The Question of Branch Line Rationalization*

A very great deal is said about this question in Bill C-231 and we can say at the outset that much of what is said makes very great sense to us at the Pools. We like to believe that the present Bill has accepted many of the proposals we made in our earlier submissions to government on this question. The Bill appears to guarantee three principles we seek: a new approach, a new kind of agency and new criteria. However, on the matter of public hearings we would raise for your consideration two questions.

(i) Bill C-231 allows the new Commission to determine whether a given branch line has been uneconomic without any reference to public hearings or the views of others. Our position on this point is that public hearings on questions of arithmetic are not necessary providing we have had prior opportunity to determine how the arithmetic is to be done. We want an opportunity to be heard when the ground rules for costing are being worked out by the Commission.

(ii) Once a branch line has been determined by the Commission to be uneconomic the Commission then may call a public hearing or receive briefs when it seeks to determine whether the uneconomic situation will continue and whether the Commission should abandon the line or order it retained with assistance from the government. Our position on this point is that we want opportunity to be heard when the Commission is seeking to determine whether a branch line will remain uneconomic into the future and when it is determining whether to abandon the line.

On both of these questions we believe that those who use the branch line may have views about it which must be taken into account and that the only

way this can be done is through the medium of public hearing or submission. We do not take the view that there must be a separate hearing for each branch line under consideration; one hearing for a number of lines would be preferable in our view when the Commission is going to have regard to an area in any case.

We would ask your committee to make it clear in your report to Parliament that opportunity *must* be afforded for interested parties to be heard by the Commission or any body examining the branch line question whenever the ground rules about costing are under consideration and whenever the future position of the line is in question.

7. The Question of Improving Railway Services

Throughout the years the Pools have maintained that the point at issue is not merely the abandonment of single railway lines but the rationalization of railway service so as to result in eventual improvement. We consider this matter still very important. Bill C-231 says that in dealing with abandonments, the Commission may recommend to railway companies the exchange of branch lines or of running rights, or the connection of branch lines with other lines of the company or with lines of other companies. It also says that if the railway companies can't recover the costs of putting into force this kind of Commission recommendation that the Commission may tell the government of this matter, apparently so that the government may help the railway company to recoup expenditures for carrying out this kind of commission recommendation.

The Duff royal commission on transportation in the 1930's recommended that the government legislate to encourage the railways to eliminate wasteful competition and unnecessary duplication of plant and services. As a result, the CN-CP Act was enacted. But after some 30 years of trial the MacPherson Commission found the railways really didn't do anything under the CN-CP Act that they didn't voluntarily want to do and recommended that it be repealed. The new Bill C-231 would repeal the CN-CP Act and with this particular matter the Pools would agree.

However, this leads us to suggest to you that the recommending powers of the Commission as outlined above may by themselves provide little real action unless the Commission has an effective way of drawing railway company attention to its recommendations. When the Pools considered this matter two years ago during study of the old Bill C-120 we suggested that some form of arrangement be provided to ensure effective implementation of the recommendations.

We said there should be powers to allow for the refusing or granting of government payments where they are provided as in the case of a subsidy and for the withholding or granting of permission to abandon trackage or discontinue a service. We think this kind of persuasion will go a long way towards convincing the railway companies that the new Commission really means business when it makes useful recommendations for the improvement of a railway service.

From time to time farmers have been persuaded to propose that the only real vehicle for improving the railway operation in Canada is to nationalize them and forge one railway company out of the several. This idea also came to

the MacPherson Royal Commission on Transportation. After all manner of recommendation about what to do about railways the MacPherson Commissioners wrote an epilogue to their report which said that if all else failed the following course of action might be attempted. They said:

"If in such circumstances, the nation should then decide that a system of railways is essential to Canadian national existence, the decision must be implemented by taking over from commercial management only those parts of the then existing railway systems which are deemed necessary for national purposes. Rigorous and accurate assessment will be necessary to include only those parts of the systems which are demonstrably vital to the national purpose. No attempt should be made to take over all the rail systems that may then exist. They are apt to be more widespread than is necessary for non-commercial national purposes. Great pressure will have to be resisted in the interests of accepting only as much obligation for national railways as is necessary and the quality of political leadership will be tested in that day."

The MacPherson Commission was suggesting simply a nationalization of that part of the railway system necessary with no compensation for the unnecessary. If improved railway services can't be accomplished through Bill C-231 and other legislative means, and that may prove impossible, then we would suggest as did the MacPherson Commission that eventually we will come to nationalization. And as you know some individual farmers would have us come to that conclusion sooner than would others.

We think you should have regard to our concern about the eventual improvement of railway service when you make your Committee report to Parliament.

8. The Question of Establishing Ground Rules for Costing

Although we do not claim to be experts on matters of railway costing we have had some experience in at least two directions. In 1960 when the railways presented an argument to the MacPherson Royal Commission based on a costing study undertaken on the basis of 1958 railway operations the Wheat Pools joined with United Grain Growers and commissioned a firm of United States economic consultants to advise us on the soundness of the railways' case. The consultant looked over the railway costing argument which sought to show that in 1958 the railways had lost a total of \$70 millions on their carriage of Prairie grain to export positions under the statutory Crowsnest Pass rates and the argument was that to improve the railway position all that was necessary was an increase in the Crowsnest rates, an increase they suggested of from 100 to 125 per cent. Our consultant said it was difficult to isolate railway traffic for costing but by using the railways' own figures and formula he demonstrated to the Royal Commission that railway losses during 1958 were \$255 millions for passenger services and \$51 million for LCL freight. The original railway case had not mentioned those items. We take it from this that we may claim without challenge that we have given some attention to the matter of railway costing technique.

We would also claim experience in this matter of costing at actual hearings of the Board of Transport Commissioners when a railway application for

abandonment or change in railway service has been under investigation. Those who appear for us say they have had no end of difficulty in their attempt to challenge the railway case at Transport Board hearings because costing argument and evidence of the two railway companies have been different.

Without pursuing this point further, we would suggest to your committee that you consider our proposal that whenever the Commission seeks to determine the components of cost or to change components once established that it provide opportunity for interested parties to be heard. As presently drafted, Bill C-231 does not provide this opportunity for interested parties to be heard and we think it should.

9. The Question of Freight Rate Controls

When the Wheat Pools presented a joint statement to the Government of Canada in May 1965 we said on matters of rate control that however modified, a rate control formula must protect the interests of captive shippers who have been forced to bear a disproportionately large share of railway constant costs and who are largely concentrated in the Atlantic and Prairie regions. We also said that legislation should provide adequate protection against unjust discrimination and undue preference in rate making and that provision must be made for representations (to the appropriate government authority) if it is felt that discrimination in rates create regional rate distortion or restrict movement of commodities to market.

We are aware that Bill C-231 seeks to give the railways freedom to set freight rates for competitive traffic providing the rate charged is at least sufficient to cover out-of-pocket costs. For captive traffic, that is freight without what Bill C-231 calls "an alternative, effective and competitive carrier other than a rail carrier or carriers or a combination of rail carriers" there is a form of protection. We're simply not certain that this kind of arrangement is good enough for an area like the Prairies where there is really no effective competition to the railways and where many shippers are too small to be able to afford the opportunity for redress provided in Bill C-231.

For example, Bill C-231 says that a public inquiry may be held by the new Commission where there is a *prima facie* case that the public interest has been prejudicially affected by the acts or omissions of railway companies as a result of the new freedom in rate making. But we suspect that establishment of a *prima facie* case in a matter affecting railway rate making may become too costly for a small shipper and no inquiry may begin until that first case has been made.

The Wheat Pools would urge that you take into account in making your report to Parliament that the farmers of Western Canada remain unsure about the provisions of Bill C-231 which have to do with railway freedom in freight rate making and the matter of unjust discrimination and undue preference. Our previous experience in matters of railway enquiries before the Board of Transport Commissioners has confirmed us in the view that the first to feel a pinch under the new found rate making freedom will be those in the Prairie region and that they will be the first to seek some form of protection. Perhaps that will be soon enough to determine how best to afford the protection. At the moment we have no ready formula and would doubt whether anyone else has a

formula which would be generally acceptable to all concerned. This is simply an extremely difficult area to provide for all exigencies.

10. *The Question of the Crowsnest Pass Statutory and Related Grain Rates*

The position of the Wheat Pools on this question is in no doubt among ourselves or among any members of the Canadian Parliament. Our position is that we strongly support the principle of maintaining the Crowsnest Pass statutory rates as an instrument of national policy under the control of Parliament. That's the way they have been since they were established, that's the way Bill C-231 would have them and that's the way we want them to remain.

We are pleased to see that Bill C-231 does not say that railway companies lose money on carrying Prairie grain under the statutory Crowsnest Pass rates. No one has ever proven to our satisfaction there is a loss although many have said there is. Bill C-231 does provide that within three years the new Commission may enquire into the revenues and costs of moving grain and grain products under the Crowsnest Pass rates and recommend what assistance if any should be made to railway companies to meet the costs of that traffic.

The Wheat Pools would not oppose this enquiry providing there is opportunity (as we suggested in Section 8 of this statement) to be heard in advance when the ground rules for the costing procedures are being established. The matter of costing any railway service is indeed a difficult exercise and when attempted usually results in a variety of complaints and challenges about the weight given the various factors. We recall the success we had in challenging the railway costing arguments before the MacPherson commission and would want to be heard on this kind of determination again.

On the matter of the At-and-East rates which relate to the rail movement of export grain to Eastern seaboard ports from the inland lake points, Bill C-231 would retain these rates at the level applicable at November 1960 which is their present acceptable level. The Bill also says that the Commission may authorize a payment to the railways for continuation of these rates if it establishes they are insufficient to cover their costs.

11. *The Question of the Bridge Subsidy*

Our position on the question of the Bridge subsidy has been simply that if it is to be eliminated it should be phased out over time and not be suddenly discontinued. This subsidy was instituted in 1951 on the recommendation of the Turgeon Royal Commission on Transportation to help meet the cost to the railways of maintaining their so-called "bridge" of non-revenue trackage around the Great Lakes area between Central Canada and the West. The West has tended to believe that any benefit from this subsidy, which amounted in total to \$7 million assistance to the railway companies, was enjoyed by those of us who live in the Prairie region where so little of our total freight traffic has any effective competition to the railways. Our position now is that we would want this subsidy to be phased out over time if it is to be discontinued and Bill C-231 appears to provide this phasing out period. We think this matter is sufficiently important for us to ask your Committee to mention this question when you report to Parliament on Bill C-231.

12. *The Question of the General Subsidy*

The Wheat Pools have never really opposed subsidies to Canadian railways but we have tended to urge that they not be related to specific parts of the railway operation. We say this because of the very real difficulty in identifying profits and losses accruing to individual operations in an enterprise as vast as a Canadian railway company.

The proposal contained in Bill C-231 for a general subsidy to begin at the annual rate of \$110 millions in 1967 and decline each year by a specified amount until it disappears altogether after 1974 would appear to satisfy our concern about tying subsidies to specific railway operations. This proposed subsidy would be general and the amount of the total available for each railway company would be determined by the new Commission after it considers all matters it believes to be relevant including payments made to the railways under other sections of Bill C-231. We would take from this statement that the amount calculated to be due to any railway company might be somewhat more than was actually paid if the railway company had received a payment that year under any other part of Bill C-231. We don't quarrel with that proposal either because we believe that any subsidy ought really to be related to the total position of the railway company for a given period of time.

There is just one point on the question of the general subsidy we wish to leave with the committee for consideration. The Wheat Pools would hope that this committee urge upon Parliament the necessity of the new Commission remaining alert and vigilant during the period of the general subsidy so that when the subsidy is terminated in 1974 the Commission will not find that railway companies then seek assistance for some other purpose after that date. We would hope that you Committee would say something in your report to Parliament about the necessity of the Commission reporting regularly and in the most comprehensive way to Parliament so that members of Parliament and of the nation may be kept aware of the changes that develop in Canadian transportation under the new policies of Bill C-231.

13. *The Question of the Coming Into Force of Bill C-231*

We have noted in the final passages of Bill C-231 that its various parts may come into force at different times. We also note that matters which are begun under presently existing legislation and before what will become a "former authority" once Bill C-231 becomes law may continue under present legislation and before the existing authority until they are settled.

We draw this section of Bill C-231 to the attention of your committee members because we want you to appreciate that a great number of transportation questions can be said to be outstanding before existing authorities—many of them are outstanding because they were held up awaiting the new legislation. For these now to be considered under the old law and before the old authorities after new law and new authorities have been established would in no way contribute usefully to the stated objectives of Bill C-231 and the new national transportation policy.

There is one final and rather minor question we would raise. Bill C-231 says in a number of places that where the Canadian Transport Commission has issued orders they shall be posted in railway stations along the railway lines

affected. Our point is that many railway lines have no railway stations left in operation and the Commission should be advised of this with the suggestion that any Commission notices should be posted in any publicly licensed enterprise operating on the railway line in question. We have in mind, of course, that these orders and notices might be posted in country elevators where they are certain to be seen by the persons most directly concerned: those who use the railway line for the movement of their grain to market. We suggest your committee draw this matter to the attention of Parliament when you make your report on this Bill.

14. SUMMARY of STATEMENT

In conclusion, let me recapitulate the main points raised in this submission on behalf of the 160,000 Prairie farmers who are members of the Wheat Pools of Western Canada by suggesting that when you make your report to Parliament on matters relating to Bill C-231 you report the need to take account of each of the following:

- (i) the provision of an advisory function so that regional and special interests can be taken into account in matters of national transportation policy;
- (ii) the possibility that the new look in Canadian transportation offered by the Canadian Transport Commission may be upset or thwarted if the Commission's membership come mainly from existing transport agencies with their traditions and precedents;
- (iii) the opportunity for interested parties to be heard by the Commission whenever the future economic position of branch lines or the likelihood of their abandonment is being considered;
- (iv) the provision of some form of persuasion to encourage the railway companies to act on Commission recommendations which seek to improve railway operations in other ways than abandonment;
- (v) the opportunity for interested parties to be heard by the Commission whenever it is determining the components of cost in any railway operation;
- (vi) the desirability of providing some form of assurance to railway users in areas where the railways have the least competition that there will be effective protection against prejudicial acts or omissions of railway companies as a result of the new freedom in rate making and from unjust discrimination and undue preference;
- (vii) the desirability of maintaining the Crowsnest Pass statutory grain rates as an instrument of national policy under the control of Parliament;
- (viii) the phasing out over time of the Bridge subsidy if it is to be removed so as to result in the least dislocation and inconvenience;
- (ix) the provision that the new Canadian Transport Commission report to Parliament regularly and in such a manner so that members of Parliament and the nation may be kept abreast of changes that develop in Canadian transportation under the new national transportation policy;

- (x) the possibility of parts of Bill C-231 coming into force at various times and in such a way as to upset the fulfilment of the stated objectives of the new transportation policy.

All of which is respectfully submitted by,

CANADIAN CO-OPERATIVE WHEAT PRODUCERS LTD.

● (9.50 a.m.)

The CHAIRMAN: Thank you very much, Mr. Gibbings.

We are prepared now for questions to the witnesses.

Mr. HAMILTON: Mr. Gibbings, I would like to discuss with you, if I may, your first suggestion, this matter of the advisory function. In the bill there is no such provision for this advisory group. My question to you and to all the members of the group is: In the experience that we have had with advisory committees set up in other sections of government activity—I will be specific—such as the Farm Credit Corporation, the Prairie Farm Rehabilitation Act and other such advisory groups, do you think that these advisory groups really maintain enough knowledge to have any effective control, or direction, over the group of people whom we set up as the officials to carry out these functions?

Mr. GIBBINGS: The effectiveness of advisory committees is related, in large part, I think, to the individuals who are on the committee, as well as the extent to which the committee is utilized in the advisory capacity.

I have known of advisory committees whose function was not very effective because of the fact that they were not utilized. There are other instances where, I believe, advisory committees are very helpful.

However, you may have noticed that we were somewhat skeptical of the complete effectiveness of the general public view being taken into account as much as we would hope through an advisory committee, so we also suggested that in the composition of the commission itself we should have representatives of the general public so that the views of the general public could be known in two different ways, one being in the advisory committee, and the other in the composition of the commission.

Mr. HAMILTON: You also suggest in your second last point that the matter be referred regularly to parliament.

Mr. GIBBINGS: Yes.

Mr. HAMILTON: Therefore, I detect, from these statements that you have made, a fairly deep concern that, by setting up this very large concept of one transportation commission, you are turning over much of the effective powers of running the transportation system of Canada to a group of people without having in the act any machinery to effectively relate their action to the will of parliament or the needs of the people? Is that really the concern that you are expressing in this brief?

Mr. GIBBINGS: Yes, in three different ways. I am sorry, I missed the proposal that we had advanced, that regularly a report be made to parliament and, therefore, to the nation, on the activities.

We were impressed by a section of the MacPherson commission report that we have extracted and published on page 10, which reads as follows:

the nature of its task appears to recommend that it be composed of persons vitally interested in the achievement of efficiency in transportation, chosen not so much with a view to giving representation to individual industries or geographical regions as to bringing the informed layman's mind to bear on a field which so often tends to become over-grown with the tangle of technical preconceptions.

This is our concern, that if the commission is almost totally isolated from the views of the general public it is possible for them to become overgrown with the tangle of technical preconceptions to the point where they do not see the broader picture.

Mr. HAMILTON: This is the very point that I am heading towards. I am glad you quoted that section from the MacPherson report.

If the Farm Credit Corporation gets to be too involved and too detailed for a group of laymen, who only come down once or twice a year, to control and manage; and if the Prairie Farm Assistance Act gets to be too technical and involved for a group of laymen, who only come down once a year, to handle, is it not going to be much more the case that the extra complicated operations of railways and trucking and airways, and all these things, are going to be beyond the capacity of a group of laymen, coming down two or three times a year, to really control and direct in the public interest?

Mr. GIBBINGS: Yes; if they went into that detail I think that would be correct. However, I would hope that the advisory committee, as well as laymen, if they are appointed to the commission would point the direction in which they felt transportation policy ought to go, rather than to be concerned with matters of costing and things of that nature—in other words, general policy questions rather than details of operation. We think that in this field they could perform a useful role, again, provided, of course, that the commission wished to use it, and did use it.

Mr. HAMILTON: I am going to wind up this series of questions. This relates to the experience which you have had as a layman in the province of Saskatchewan.

In the legislature of Saskatchewan they do have a special series of arrangements to handle the business of crown corporations, which we do not have here in Ottawa. In your observations, as a layman, of the procedure and practice in Saskatchewan, where the members of the legislature, almost *in toto*, have a trained group available to advise them, and where the officials of these crown corporations are brought regularly before this committee has this proved a workable manner of informing the public and keeping the members of the legislature informed of the operations of the crown corporations?

Mr. GIBBINGS: I think it has been a useful procedure which has been followed there. Once each year, as you have indicated, the operations of the crown corporations are examined in considerable detail and reported to the press, and, therefore, to the public and to the members of the legislature; and as a consequence I believe that management of the corporations are more

sensitive to the views and requirements of the public than would otherwise be the case.

Mr. HAMILTON: And is it not also true that the officials of these crown corporations are questioned by the members of the legislature in their capacity as committee members directly?

Mr. GIBBINGS: Yes.

Mr. HAMILTON: Therefore, the operations and the purpose of each crown corporation can be closely analyzed by the representatives of the people who are held responsible by the people for the service.

My final question is: would you object if this type of machinery, in relation to this very large bureaucracy which we are setting up here for the transportation commission, were set up here in Ottawa? Would this meet the function that you have in mind for your advisory committee? Would this give a chance to the people of Canada to find out more directly, because of the fact that the members of Parliament would be held responsible for any mistakes of this transportation committee?

Mr. GIBBINGS: We have suggested, under No. 9 of the recommendations, that the new Canadian transportation commission report to Parliament regularly, and in such a manner that the members of parliament and the nation may be kept abreast of changes and developments.

In other words, it was patterned somewhat on the procedure that is followed in Saskatchewan; so that members of Parliament and the press would be able to inform the general public of developments that have taken place and, at the same time, make suggestions and recommendations in the direction in which they felt that the policy ought to proceed in the future.

You have correctly identified our concern in this direction, and you will have noted that we have pinpointed three separate ways—although they could be combined—in which the general public's views can be made known to the transportation commission.

Mr. HAMILTON: You would not have any objections, then, if we amended this bill in such a way as to make it mandatory that the officials of this transportation commission appear annually before the Standing Committee on Transportation and Communications?

Mr. GIBBINGS: No, we would have no objection at all. As a matter of fact, we would welcome that proposal.

We, however, would like to perhaps go even further and see to it as we have suggested here, that the general public—the nation—be kept abreast; but we have not outlined the procedures which might be followed. It might be appropriate, failing the adoption of the previous two suggestions, to give the general public an opportunity also to participate in the discussions of the activities of the Canadian transportation commission.

Mr. HAMILTON: How would you go about that?

Mr. GIBBINGS: Well, in none of these proposals have we established the procedures that may be followed, but knowing something of the ingenuity of people such as yourself we thought you would be able to implement these without any difficulty.

Mr. HAMILTON: There is one other little point, and the answer to it I think has already been given indirectly. That is, if the Standing Committee of Parliament is to function well—and there are a number of very difficult problems such as costing and maximum rates control—in your opinion, would it be a help if that Committee had permanent staff who were trained and qualified to be able to help the members of Parliament to deal with these questions of costing and economics of railway management, and also of other forms of transportation, so as to give, really for the first time in Ottawa, the members of Parliament a chance to have professional help at their disposal so that they could properly carry out their function of watching the operations of this transportation commission.

Mr. GIBBINGS: Well, I know very little directly of the responsibilities that fall on the shoulders of members of Parliament, but I am certain that they are sufficiently numerous and onerous that it is impossible for them, as individuals, to give the amount of study which would be required in order to be knowledgeable in the fields that you have mentioned, such as railroad costing and so forth. Therefore, if they are going to make an intelligent assessment of the situation, they need to have access to technicians and experts in the field.

How this is set up, of course, is a different question. When we were preparing for the MacPherson Commission hearings we had to hire transportation experts from the United States. This is a costly procedure, and it would certainly be difficult, I would think, for a political party, or for a group of members of Parliament, to do that; and, probably the best way to do it would be to have this kind of technical knowledge available to all members of Parliament in a manner somewhat after the fashion that you were outlining, I believe, in your question.

Mr. HAMILTON: Well, that is what I was referring to—the fact that you had to go to the trouble of spending money, on behalf of western farmers, to go before the MacPherson Commission to explode the figures which the railways had brought in. If you had not done that this country might have been in a very desperate situation in so far as western grain rates are concerned. I think I expressed the gratitude of many people in western Canada that the farm organizations did spend that money because the ordinary individual—members of Parliament—have not got that background, and have not got that type of money to secure this help.

I think I have questioned you enough to indicate that you do not see any clash between your three proposals for controlling this very big new bureaucracy and what I have been suggesting and what your own group is proposing?

Mr. GIBBINGS: No, as I indicated earlier I believe that you have identified our concern, as well.

Mr. HORNER (*Acadia*): It is your suggestion, then, that an advisory committee be set up, or something along that line.

What would you think of a suggestion that was made by the C.N.R.—I am going to paraphrase this a bit, but this was the main idea—that perhaps the 17 man board could be split up and perhaps, under the umbrella of the commission, one part of it could be a research council looking into all aspects of transportation in Canada and doing the research analysis with regard to costing of branch line abandonment, passenger service and air traffic and the whole

business. If necessary, they went along with the idea that this research council should be an independent body, apart and aside from the actual ruling or regulatory commission.

I would like to know your views on this suggestion. Would you go along with this? Would this function be covered if a transportation research council were set up independent of the commission?

Mr. GIBBINGS: Well, we look upon these as really being two separate functions.

Personally, I am impressed with the suggestion that an independent research group be established, which is not under direct control of the commission, and to which persons and organizations which had an interest in the procedures that were being followed might have an opportunity of making those views known.

We had thought in terms of the advisory committee performing a function which would keep the commission in touch with the realities of the world.

Mr. HORNER (*Acadia*): Yes. Well, in a sense I agree that these commissions must always remain in touch, but I have, and I know you and the other pools in the other two provinces have, appeared at hearings from time to time with regard to the discontinuance of service in a given area. I have never been able—and, of course, you found this very, very evident when you appeared before the MacPherson Royal Commission—I have never been able to go to anybody and say: "Give us the economics of the maintenance of this line." or something like that.—I am using this as an example.

We have recently seen established—or, at least, it has recently come to the forefront—the Economic Research Council to the maintenance of which the pools and the prairie provinces, generally, contribute.

We are suggesting in this Bill C-231 that a 17 man board be established and that that 17 man board do their own research. Too often we politicians, and a great many people across the country, see rules and regulations laid down by a board and the board then treasures the reasoning by their own research. The MacPherson report is a very good example, where the railroads laid down their beliefs about their costings by their own research, and nobody could really dispute them except somebody brought in, at high cost to the taxpayers, because really this is who has to pay for it. I have often thought that boards tend to make up their rules and regulations and know where they are going and why they are going there and they try to substantiate this by their own research. There is a tendency towards this. We are all human beings, and I believe this is the way human beings work.

Now, do you not think that if an economic research council is necessary for agriculture, one is just as necessary, in fact, more so, for our vast transportation system, because it is so complex that communities, unless they are very wealthy, have very little chance to dispute arguments put forward by the trained analysts whom the railroads call in?

Mr. GIBBINGS: As I have already indicated, my own personal view is that an independent research body would be a desirable development. We had, of course, expected that the commission itself would be doing a considerable amount of research. However, as I say, we have not discussed this as a group at

all and it might be appropriate to have some comments from Mr. Harrold and Mr. Parker on this particular question.

Mr. HORNER (*Acadia*): I have a few more questions along different lines, but if Mr. Harrold or Mr. Parker would like to comment I have no objection.

Mr. G. L. HARROLD (*President, Alberta Wheat Pool*): I think Mr. Gibbings has pretty well covered it as far as we are concerned. Certainly, we can have too much research on the same question.

We have a commission set up in order to check and see that the policy is being carried out in the way of assembling facts, and so on, as far as the railroads are concerned. Then we would have another body to check on this point, so that we would have three groups going. I think that the suggestion here of an advisory committee—whether they have a research branch which would assist them—would have to be discussed. We have not agreed, as far as our group is concerned, on any one definite line of action.

Mr. W. J. PARKER (*President, Manitoba Pool Elevators*): I think that what is bothering Mr. Hamilton and Mr. Horner is how this parliamentary committee has actual control and scientific knowledge of what is being done. Our concept of what an advisory committee should do was just exactly what Mr. Gibbings said, to keep the Commission oriented to the public needs. We were not thinking of cost accounting and that sort of activity for the advisory committee.

If I were member of a parliamentary committee, I would feel completely inadequate to dispute figures presented by the railroad, and I would be a little bit concerned that the transportation commission would tend to become rather closely associated with the transportation companies. I would be interested in having at the Committee's disposal a small technical research group of people who would be responsible to parliament and not to the commission, and for it to report to the public at least annually, as we suggest here. We are concerned that the public, generally, through parliament, should know what is going on.

It is no criticism of you; as members of parliament, when we say, as Mr. Gibbings said, that you are not experts in transportation, any more than we are. We are knowledgeable of what the results of the impact of the commission might be. We take the position that transportation is an important industry and in the interest of the people, and the people's interest is paramount.

I would suggest, speaking personally now, that in some way parliament should avail itself of some technical assistance by way of permanent staff available to the Committee, or to parliament, and not responsible to the Commission. Obviously, the Commission will have its own research and will be doing its own work all the time. You have an auditor-general. This is what we are thinking about in answering your questions, Mr. Horner.

Mr. HORNER (*Acadia*): I think we are all agreed, in a general way, that perhaps an independent research council—call it what you will—should be set up so that members of parliament and the public generally could have, within their reach, the economics on a given part of our transportation system.

Mr. R. H. D. PHILLIPS (*Director of Research, Saskatchewan Wheat Pool*): Mr. Chairman, if I could intervene at this point in Mr. Horner's questioning, I would like to draw your attention to two or three points made in the submission, which were not read this morning.

The concern of the farmers is that those who direct and establish public policy regarding transportation do have every opportunity to have regard for the users. It is the consumers' transport. We say in the section dealing with where the new commission would look at branch lines, that if you are going to make a decision about tomorrow, we want to have a chance to be heard—we, the users. We have said in the section about costing that if you are going to set up the rules about doing it, we want to be heard; and we would like the opportunity each and every time. In the section relating to grain rates we say that when an estimate study is done, as the Bill now proposes, we would like to be heard in advance on the techniques.

These are all part of the parcel that we talked about really in the advisory function of the bill. One way to do it is to have an advisory committee; another way is to have an informed layman on the Commission; another way is that at junctures where policy is being determined the commission takes the opportunity to compare the views of those people who think they have an interest. They would be the judge of whether they have an interest or not.

Mr. HORNER (*Acadia*): I have a couple of questions I would like to ask and I am going to drop that aspect of my questioning for a minute.

In your knowledge of western Canada and goods moving in and out of western Canada, what would you people think of the aspect with regard to captive shippers. Are there many in western Canada? We had Mr. Gordon here before the Committee. He said he could not think of any instance where there was a captive shipper any longer in Canada. This is a narrow point of view from the railway's viewpoint. Your business with the pools is, in the main, handling wheat, but I know that the Saskatchewan Pool and the Alberta Pool do become involved in the handling of a great many other farm commodities and, in some instances, even farm machinery which has to be shipped in by the farmer.

Would you take the narrow view that Mr. Gordon did, or would you think that there would be certainly ample captive shippers found on the prairies?

Mr. GIBBINGS: I would say that the degree of competition is certainly different in some parts of the country than it is in others.

I suppose that in the narrower sense you could say that there is no part where there is no other alternative, but certainly, the other alternatives are limited in many areas.

We are concerned, as we have indicated in the presentation, with the effects of lack of competition in certain areas of the country, namely, ours, where the number of alternatives is limited and where alternatives do exist. They may not be any more economical than railroads.

We have already seen instances where there has been some escalation in the costs of moving livestock, and there seems to be a considerable degree of unanimity between the railroads and the truckers with regard to these adjustments. The adjustments are made, not simultaneously, but they are made following one another; so that while you have available competition in the movement of livestock by rail and by truck, this does not mean, necessarily, I suggest, unless pretty careful control is exercised, that the interest of the shipper is going to be protected.

Mr. HAMILTON: I wonder if I might interrupt here. Arising from what Mr. Gibbings has just said, it must be realized, I think, by everyone here, that the whole basic assumption of this bill is that if we give to the railways the right to make their rates there will be competitive types of transportation, and obviously the main type of competition to the railways will, in the long run be the pipelines, and so on, but in the meantime we have to rely on the competition of the trucks. Your suggestion this morning implies—states—that there is really no competition between the railways and the trucks and I assume you are referring to the fact that the railways own many of the trucking lines. If we have not got this effective competition with the trucks, and they are adjusting the rates to mutual advantage, what hope have we got in this bill?

Mr. GIBBINGS: The concern that we have expressed here. It is a little different if you have water rates competitive with the railroads; you have got an effective protection in so far as the public is concerned. Mind you, I am not arguing that the truckers did not need an increase, too; their costs have gone up. But the fact is that when the truck rates went up the railroad rates went up, and the additional burden was borne by the shipper of livestock. There is really nothing that I know of that we might have done in order to protect the situation. We did protest to the railroads but ineffectively.

In this particular instance, when Bill C-231 comes into effect, if I understand it correctly, and rate control is removed, we have some concern that the interests of the individual farmer or the public can be protected in areas where there is limited effective competition and, as you have pointed out, particularly when the trucking is owned by the railroad, then you have, I think, reason to be suspect with respect to effective competition between the two.

Mr. HARROLD: The defects in this matter that Mr. Gibbings is speaking of are that in Saskatchewan in the spring of 1966 the provincial highway traffic board allowed an increase in various trucking rates and, I understand, the same happened in other provinces. As a consequence, the railroads introduced an increased tariff for these rates which were competitive, and it went into force in May. Then, you will recall, there was a railroad strike, and since then the railroads have announced an increase in rates of about the order of 10 per cent on top of the May, 1966, increase, and it is our anticipation that the truckers will seek to follow suit. But the point you must remember is that from a given location in Saskatchewan, from where we may ship live animals to a livestock yard in Winnipeg, the effectiveness of an alternative to the railroad is the presence of a trucking firm, and it does not follow necessarily that there is a trucking firm able to ship livestock, even though the rate goes up fairly appreciably. You get in and out of trucking with some investment, as you know, and you require a little time to do it; so the effectiveness of the competition depends a great deal on the availability of it.

Mr. HORNER (*Acadia*): This has been my fear in the bill. The only real protection that is afforded anyone in the bill is the captive shipper—if you can prove it—and you have to be 100 per cent captive shipper. Now, Mr. Gibbings, the wheat pool handles quite a bit of livestock and this industry is one of our basic industries in Canada. Yet, it would be difficult to relate—take western Canada for example—the livestock industry with a

captive shipper, because perhaps 10, 15 or even as high as 20 per cent of the livestock trade from Western Canada to Ontario is moved by truck. I do not think it is as high as 10 per cent. But it is still not 100 per cent by rail and, therefore, the livestock shippers could not appeal to this commission for protection because they could not guarantee 100 per cent. There is the odd truckload of livestock moving, and you understand what I mean, Mr. Gibbings. So, if the commission takes the narrow point of view, surely this bill will afford very little protection. And I know, Mr. Gibbings, the Saskatchewan Wheat Pool handles, and has quite a bit to do with the livestock trade in the province of Saskatchewan.

Mr. BYRNE: I noted on pages 2 and 3, Mr. Gibbings, you went into some detail—and it was read again this morning—on the various activities of the Alberta Wheat Pool, Manitoba Pool Elevators and the Saskatchewan Pool Elevators. You stated that you manufacture farm supplies and farm equipment. Is that machinery?

Mr. GIBBINGS: No. We manufacture and distribute fertilizers and some other farm supplies.

Mr. BYRNE: What would they be?

Mr. GIBBINGS: The Alberta pool, ourselves, and Confederated Co-operatives are in a joint venture in the manufacture of fertilizer in Calgary, and through our association with other organizations in western Canada we also own a chemical manufacturing plant where herbicides, fungicides and insecticides are manufactured for our own use.

Mr. BYRNE: And you process vegetable oils?

Mr. GIBBINGS: Yes.

Mr. BYRNE: And other vegetables—that is, canning and so on?

Mr. GIBBINGS: No. Our processing of vegetable oils pertains to rapeseed and a minimum amount of linseed.

Mr. BYRNE: Have you any idea of what would be the approximate turnover of these various manufacturing industries outside of the grain handling itself?

Mr. GIBBINGS: I do not have a breakdown of it and I would only have to rely on my memory in connection with it.

Mr. BYRNE: You have not considered going into the transportation business.

Mr. GIBBINGS: Yes, we have considered going into the transportation business but not on the ground. We had considered at one point providing transportation on the lakes by owning vessels.

Mr. BYRNE: Not rail.

Mr. GIBBINGS: No, we had not considered competing with the C.N.R. or C.P.R. in that regard.

Mr. BYRNE: I noticed in two sections of your brief you refer to the costing methods used by the railways in their submissions to the MacPherson commission. Have you any specific reasons for believing that the railways, the C.N.R. and the C.P.R. were not using genuine costing methods that would show the actual costs of handling?

Mr. GIBBINGS: Yes. The railroads, in their original submission to the MacPherson commission, alleged that they were losing something in the order of \$70 million annually on the statutory Crowsnest rate, and indicated that if they could receive redress from this they could look after most of the other problems that were facing them.

Mr. BYRNE: You said that you hired a firm from the United States.

Mr. GIBBINGS: Yes, we hired transportation consultants from the United States who, taking the same accounting procedures the railroads had utilized in arriving at the alleged loss of \$70 million, determined that their losses on passenger traffic were much higher than the alleged losses on grain, and that their losses on LCL freight were also very substantial—\$255 million on passenger service and \$51 million on LCL freight. Well, obviously the railroads were not losing \$70 million on grain traffic, \$255 million on passenger service and \$51 million on LCL freight, and what our transportation cost accounting experts were able to do to convince the MacPherson commission, at least—and I think everyone else—that the costing procedures that were being utilized by the railways in arriving at that figure was not sound. This is our concern. We have already indicated that we are not experts in this, and few other people are, and as a consequence of that we feel that when the criteria are being discussed with respect to costing that we, and anyone else who may be interested, should have the opportunity of determining the criteria that are being used in this instance.

Mr. BYRNE: Do you accept the MacPherson Royal Commission report in that the commission itself accepted the Canadian National Railways loss as something in the neighbourhood of \$4 million?

Mr. GIBBINGS: The Commission, as I recall, was not convinced that the railroads were losing money or making money in the question of handling grain under Crowsnest rates.

Mr. BYRNE: There was evidence given by the officials of the Canadian National Railways last week that the MacPherson Commission determined that the loss to the Canadian National Railways was \$4 million.

Mr. R. H. D. PHILLIPS (*Director of Research, Saskatchewan Wheat Pool*): I think it is on page 19, Mr. Gibbings. The Commission says: "We are pleased to see that Bill C-231 does not say that railway companies lose money on carrying prairie grain under the statutory Crowsnest Pass rates. No one has ever proven to our satisfaction there is a loss although many have said there is". This would include anyone who has said it, including the royal commission.

Mr. BYRNE: This would be the pool's position?

Mr. PHILLIPS: It is a matter of judgment.

Hon. J. W. PICKERSGILL (*Minister of Transport*): Mr. Chairman, I would like to say a few words about this point. We felt, in drafting this bill, that the costing data on which the MacPherson Commission made its recommendations were quite out of date. One of the commissioners had disagreed with the other commissioners about the effect on the railway finances of the Crowsnest rate. It was undesirable to indicate in this bill that there was any loss whatsoever and the bill does not make any determination of this matter. It leaves the matter to

be determined over a three year period by the new transport commission. And, of course, they will have the responsibility of making that determination themselves on the basis of costing techniques that the commission is satisfied with. They are prevented from accepting the costing of the railways or anybody else. One of the first duties they have is to determine proper costing techniques for themselves. That is a duty, if this bill is passed, that Parliament will impose upon them. I am very pleased that Mr. Gibbings and his associates have commended us for taking this position. I am just wondering whether it is very profitable for us to engage in a debate about something that the government has rejected anyway and that is not in the bill at all. The question of whether or not there is a loss under the Crowsnest rates is something that, if this legislation is passed by Parliament, is to be determined over the course of the next three years by the commission. If we disagree with that method of doing things that is a proper subject for the Committee. But, I am just wondering what useful purpose would be served by having a debate about whether the MacPherson Commission reached a right figure in its report when it actually has already been rejected by the government.

Mr. BYRNE: The only purpose I see for questioning is the fact that it is mentioned in the submission on two occasions. I would have felt that we would be prepared, as the bill suggests, to leave it to a new commission that will go into all of the relevant facts. I do not think we should prejudge under any circumstances.

Mr. GIBBINGS: Nor were we attempting to do that. What we were saying was that in matters of costing whether they be for Crowsnest rates or for any other purposes the criteria are being established that interested parties ought to have an opportunity of examining the procedures that are being followed in the costing. We arrived at that conclusion because of our experience with respect to the costing that was utilized in the Crowsnest rates in the original submission of the railways before the transportation commission, and that is the reason why we suggested it. We may not decide in our judgment to challenge them in any way but, we ought to, we believe, have an opportunity to do so if we feel that we should.

Mr. BYRNE: Do you anticipate any expansion in fertilizer production?

Mr. GIBBINGS: We are in the business of manufacturing fertilizer for our own members and if the market for it expands beyond the present level, which we anticipate it will, it is our intention to meet those requirements. We do not manufacture for anybody else but ourselves.

Mr. BYRNE: What do you mean by "anybody else but ourselves"?

Mr. GIBBINGS: Our own members.

Mr. BYRNE: There is no sale to anyone outside of members of the organization?

Mr. GIBBINGS: No, but there could be a small percentage of non-members, let us say, farmers, who are not members of the organization who buy small quantities of fertilizer from us. These would be a very, very small percentage of the total. But farmers own us; we own the fertilizer plant, and the purpose of it is to provide ourselves, as farmers, with our requirements in this regard. It is not our intention or desire to produce for anyone else.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, I would like to ask Mr. Gibbings a hypothetical question further to questions of Mr. Hamilton and Mr. Horner. Let us suppose we have a hypothetical reference to the new transport commission. I am just a simple-minded maritimer and I get all confused with the rates in the big west. Suppose we have a hypothetical case that is referred to us that concerns a regional problem in the west, for example since we are considering this our "big worry" in terms of the railways. Let us suppose it is a matter of trucking or passenger service that involves buses and it comes before this new transport commission of which there are a large number of experts and as you suggest, perhaps three or four laymen. Now, first of all, you have a worry—which I think I share too—that we will not be able to get at the basis of the costing of this matter. The Board of Transportation Commissioners and others will be available in their new position with the expert figures and probably they will be set up in a way that would favour the railways or, at least, they would be oriented to the railways. This is the fear we have now.

You would be happy, in your case, if you were allowed, to make an appearance at some stage and you would have no worries about supplying your own costing figures. But, you further suggest that we on the Committee or Parliament should have experts available to us so that a decision would come forward. Am I putting this forward correctly now because I just want to try and envision what is going to happen in this commission?

Mr. GIBBINGS: Well, we had not suggested in the presentation that the experts be available to the members of Parliament; it was suggested through the questioning with which we agreed.

Mr. BELL (*Saint John-Albert*): So we are all here, and we are either going to make an initial investigation in this or we are challenging a decision that has been made by the commission. It is apparent that a decision is going to have to be made that might not be favourable to the railways. Do you have any fears that we will be able to get something which might be against the interests of the railways by way of commission backing?

Mr. GIBBINGS: I would like to refer to page 17 regarding this question. Mr. Bell is talking about costing data. We are talking about the criteria for doing the costing. They are not quite the same thing, as you will appreciate.

Mr. BELL (*Saint John-Albert*): I am generalizing. I am just trying to get at the practical way this new commission is going to operate. We have our responsibilities, you have a certain responsibility, and the commission itself has a responsibility. We are both going to have our experts available. We both want our opportunity to place this all on the record.

If this does go forward in a way that is suitable to everyone, with this 17 man commission of experts, most of them with a particular orientation as far as the air or the railways are concerned, do you have any worries that they are going to consider this unfairly?

Mr. GIBBINGS: We are probably suspicious, because of their association and experience, that there is a possibility of the balance being in favour of the carriers. This is the reason why we have suggested that a countervailing balance be established through the advisory committee, and the other ways that we have suggested.

With respect to the captive shipper or, if you like, the inadequate complete competition, we have suggested in our presentation that an individual, even though he may feel he is being unjustly treated, would probably not be able, for financial and other reasons, to go through the procedures that are established in Bill No. 231 to have redress in this particular question. Our suggestion is that some other procedure be established, as you will note on page 18. This can probably be taken care of by the suggestion that was advanced by Mr. Hamilton earlier, that a group of experts be available to the members of Parliament on these questions. This might be one way in which that particular provision and our concern in this particular area might be dealt with.

Mr. BELL (*Saint John-Albert*): That is really all I had in mind. I suppose, then, you would agree that with all this new legislation and the interest in transportation it would be a good vocation for young people to become interested in, so that they could become experts, available to parliamentary committees and also as advisory members of the transportation commission itself.

Mr. DEACHMAN: Mr. Chairman, I want to pursue the line of questioning which Mr. Bell and Mr. Hamilton have been following with regard to the research facilities of the commission and with regard to the possibility of the commission becoming weighted in its opinions in favour of the carrier. I would like to know what can be done to put checks and balances on that.

I notice that in the constitutional organization of the commission there is a president followed by two vice presidents, and these vice presidents have each functions of their own. One is to be the vice president in charge of the committees, and these are the committees to deal with such subjects as railways, air, water, trucking, pipe lines and so on as described in section 17. The other vice president has an equally important function, and that is the function of study and research; and his powers are detailed at considerable length in section 16 of the bill.

Looking at this organization, it appears to me that this organization differs from those organizations which will be absorbed into it in that it is very heavily weighted on the side of research and new techniques. If I were looking for improvement, I think, in our approach to the regulation of transportation, one of the areas to which I certainly would look would be in its capability to deal with research in a much more complex transportation field. I think the bill appears to have done that. The question I would like to put to you is: Do you not feel that the research side of the new commission is capable of carrying out the research that is necessary to put government in touch with transportation both to the benefit of the carrier and the country's economy generally?

Mr. GIBBINGS: We indicated earlier that the commission would have research facilities available to it, and would carry out research. The question was: Can the general public and members of Parliament be sufficiently knowledgeable in this field to effectively give direction in these areas? My view is that this is extremely difficult for them to do, without having access to independent research and experts in the particular field. Many of us, I am sure, would not even know what kind of questions to ask; and it would be difficult to detect areas where there might be reason for doubt had you not the background

knowledge that could be available through an independent research organization.

It is not that I am suspicious particularly; it is simply that people get, over a period of time, operating in a certain direction and they become oriented in a certain direction. All we are suggesting is that an opportunity be provided to have checks made, so that the general public's interest, the shippers' interest and the special interest of special areas are, in fact, protected. In other words, assurances that this is the case.

It may be, through the passage of time, that any suspicion in this regard is unfounded, and if that is the case, we would be very pleased indeed. But, as you will appreciate, we just want to be sure.

Mr. DEACHMAN: We have some checks now upon commissions and boards of this nature. I suggest to you that some of those are three parliamentarians who are going to be very close to this commission when it is formed. One of those is the minister, who is always available to the standing Committee and to the House of Commons, the associate minister and a parliamentary secretary, all of whom are available to the Committee and who will have closer contact than perhaps the average member of the Committee. I suggest that this is a check upon the functions of that Committee.

There is another check which I want to mention and that is the check of the Auditor General who sees that all the bureaucracy remains honest and that its administration remains sound. As you know, the Auditor General is an employee of the House of Commons.

I was just wondering, when these checks are available to us, and we have the opportunity to examine the minister and to call witnesses when the estimates are before the Committee every year, why we, as a Committee of the House of Commons, should be asking for an additional research institution to observe what a research institution is doing. I think you are heaping researcher on researcher, and I do not think they are really necessary. From time to time I could imagine our probing deeply into one matter or another concerning transportation, but to set up a research institution to watch a research institution, and have us, in turn, watching all this is, I think, asking for far more parliamentary oversight than we are able to give in this Committee. I wonder what your comments would be on that?

● (10.50 a.m.)

Mr. GIBBINGS: I am pleased that you are convinced that the procedures which are now available are adequate. I regret that your views are not universally held, and as I have indicated, these are particularly difficult and complex matters. You, as a member of parliament, feel, I am sure, that you are adequately equipped to understand all these things, but not all of them do. I am not a member of parliament, fortunately, but I am interested in these matters, and being interested is not sufficient to equip me to give what I believe is the kind of attention that is necessary in this particular area.

As I had understood the proposal—and I indicated my agreement to it—it would be that you would have people at your disposal who would have the time to give attention to these questions; to judge and advise on the adequacy of the criteria that are being utilized in the various areas so that you might be better

equipped to play the role which you say you are now adequately able to perform. As I say, I am pleased that you feel that way but, as already indicated, I am not sure that all members of parliament feel as you do.

Mr. DEACHMAN: First of all, I feel, Mr. Chairman, that the witness is putting some words into my mouth. I do not think I said—and I do not think he really believes that I said—that I find myself so skilled in this field that I do not need any of this assistance.

What I am saying is merely that I think you are suggesting that we build—and I think you understand me, sir—far more complex machinery to deal with this matter than is necessary, and that the function of the member of parliament is not, really, to get any grasp of transportation costing or, indeed, to employ experts to study experts who are cost accountants, but to see that the general formation of policy and those who are involved in it are such that he can put his trust in them; and to listen to persons such as yourself who are ever so much more expert than we are—if I may put thoughts into your mind—when you come before us, and to see that you have adequate access to this Committee. This is the point I am trying to make, that we are over-complicating something that we really do not need to over-complicate, as members of parliament.

Mr. GIBBINGS: All we were attempting to do here was to make certain that machinery was established so that the general public could not only be protected, but feel that they were protected.

Mr. DEACHMAN: I think it is in the bill.

Mr. PASCOE: Mr. Chairman, our concern for the need of costing experts and research to help the Committee judge Bill No. C-231 and the whole transportation problem has I think, been brought out and emphasized sufficiently and I will not pursue it here.

The CHAIRMAN: May I bring to the attention of those who are carrying this on and on, that this afternoon there will be moved in the house, and I also hope to move the concurrence, a motion which was adopted by this Committee at its meeting on October 13th, that the Committee retain a costing economist who we have agreed upon already, so perhaps we can do away with this discussion and debate on costing. We hope to have him here by next Thursday.

Mr. PASCOE: Mr. Chairman, I was not going to pursue it any further, but I have two or three direct questions for Mr. Gibbings on his summary of statements.

I think, perhaps, the first one would be on number (ii) where he is talking about the possibility that the new look in transportation offered by the Canadian transport commission may be upset or thwarted if the commission's membership come mainly from existing transport agencies with their traditions and precedents. I think, Mr. Gibbings, you realize that under this bill the three existing agencies—The Board of Transport Commissioners, the Air Transport Board and the Canadian Maritime Commission—are going to be transferred to this commission. There are thirteen of them and there are only seventeen members altogether on the commission. Are you suggesting, possibly, that this composition is not satisfactory?

Mr. GIBBINGS: We are suggesting that there are the other four.

Mr. PASCOE: But how about the thirteen?

Mr. GIBBINGS: That the general public's view in this particular area be represented by the other four members of the commission. We outlined this on page 11, I believe, of the presentation.

Mr. PASCOE: You are quite satisfied with the transfer of all the present members?

Mr. GIBBINGS: We are not really in a position to judge that. I would expect that they are experts in their various fields else they would not be where they are, and it is the intention to consolidate this into an agency so that they would be transferred; but in order that a fresh look be taken at the whole question, we are suggesting that the four new ones be representatives of the general public, people who are knowledgeable in the policy end of transportation questions.

Mr. PASCOE: The fourth summary, the provision of some form of persuasion to encourage the railway companies to act on commission recommendations: Are you suggesting that there is not enough force in this bill to produce more than recommendations to the railway companies?

Mr. GIBBINGS: Experience in the past has led us to that conclusion. You may recall the passage of the CN-CP Act which was established for the purpose of effecting some economies through joint operations and various other methods. According to the MacPherson commission this has been something less than an outstanding success. As a matter of fact, they recommended the repeal of the CN-CP Act, which this bill now does.

We, therefore, as the result of the ineffectiveness, if you like, of the Duff commission, have concluded that if there is going to be a substantial amount of improvement, in the total rationalization sense, more than advice and encouragement are required, and we have suggested that in this area that perhaps the withholding of any transfers of income from the general public to the treasuries of the railroads might be an effective persuader.

Mr. PASCOE: I think that answers that question quite well.

There is one more. In (viii) you talk of the phasing out, over time, of the bridge subsidy if it is to be removed. Are you suggesting there that it should not be removed?

Mr. GIBBINGS: No; but we do say, if it is removed, that it be removed over time, which is the same philosophy that we utilized with respect to any adjustments in any other section of the railroad's activities.

Mr. PASCOE: What results do you see from the removal of the bridge subsidy?

Mr. GIBBINGS: There will be reduction in transfer of income to the railroads as a result of it.

Mr. PASCOE: I mean in regard to the economy of the west. Do you see any effects?

Mr. GIBBINGS: To the extent that it is responsible for the rates being lower than they were previously, and since its removal will result in a higher cost to those who are utilizing the rail services in western Canada, this cost would then be spread over a period of time rather than there being a sudden increase.

Mr. PASCOE: I had some questions, Mr. Chairman, on the Crowsnest rate, but I think they have been pretty well answered, except for one. In the three-year study, I am sure you would support my contention—and I agree with you that no one has ever proven to our satisfaction that there is a loss—that we should take into consideration the figures of recent years of the large movement of grain.

Mr. GIBBINGS: Yes.

● (11.00 a.m.)

Mr. SCHREYER: Mr. Chairman, my first question is addressed to Mr. Parker. It has to do with research, transportation, economics and technology. Last week one of the witnesses of the C.N.R., when appearing before us, contended that it was really undesirable to have the research function carried by the same agency that is regulating transportation. I inferred from his remarks that he thought it would be better for the research function to be carried out under the independent auspices of a major Canadian university. In your opinion, would this be practical and necessary, or desirable.

Mr. PARKER: Well, Mr. Chairman, that is a difficult question to answer. Through questions asked by Mr. Hamilton and Mr. Horner we have been led into the position of almost recommending to the Committee how you should fortify yourselves in order to adjudge, and this was not our intent. I think it would be a little presumptuous on our part. But, we are concerned that some research body would do this. You are coming back to a thing that very much concerns us. Our people have had the experience of appearing before both railroads in respect of applications for abandonment of certain pieces of branch lines. We found out under expert questioning and probing that they changed their figures as often as three times in one hearing. We exposed considerable lack of efficiency in the operation of the line. We exposed, in our opinion, to the satisfaction of the Board of Transport Commissioners, that the figures were inflated—not necessarily deliberately, but it is because of their methods of accounting and how they allocate costs against certain figures. How much of the head office complex at Montreal do you charge against a little branch line somewhere in Saskatchewan or Manitoba? These are very complex, intricate questions, and we satisfied the old Board of Transport Commissioners because they denied the application. In other words, they did not find that they had lost money. Now, the thing that concerns me most in this bill, Mr. Pickersgill, is that an application for abandonment first would be assessed by the new commission, and if that commission finds that that line is a loss line, then they may—and the word is “may”—have a public hearing. Now, what is the use of having a public hearing after a transportation body of the stature of this proposed one announces to the public—and according to the bill, it publishes—in all the railway stations up and down the line—that this line is losing money. We would find it very difficult to refute that. We are licked before we start. Now, we ask the right, on the part of the people who live on that line, to hire their own experts and to go in and examine the railway witnesses on their costing and what charges they are charging against that particular operation. We do not think it should be “may”; we think it should be “shall”—you shall do it and you will expose your figures at the Commission hearing to scrutiny and examination before the public, not in camera. This is my most severe criticism of the bill. This impinges on some of the questions that have been asked. I do not think any of us want to suggest to you gentlemen how you should fortify yourself, but we

are very much concerned about the public. I am concerned about my own members living on certain lines; we know some of those lines will go because they cannot stand up. We do know from a past hearing before the royal commission that we, the grain growers and the three pools spent an awful lot of money when putting a case before them. Members of the pool have spent a considerable amount of money in connection with the C.N.R. and the C.P.R. and our experiences have been the same in both instances. Their cost accounting systems are not even the same; they are not parallel. It is very difficult to analyze them and prove our point but we were successful.

The old commission was a judicial body. It heard both sides and then it made its decision. In this case, the proposal here is that the body must first make its decision on whether it is losing or making money, and then they will only have to consider whether the needs of the area are sufficient to justify a subsidy. I have been concerned that the federal treasury have been just granting subsidies on the basis of a cost study that was made in camera.

These are the points that I have in mind, Mr. Chairman, and with which we are greatly concerned. Now, I cannot answer your question very specifically. I think, what you really are asking me, sir, is if some outside body, whether it is a university or some firm which is knowledgeable in this field, might be engaged periodically or on a continuous retainer basis to do this. I do not know. I have some sympathy for the position you say was taken by the C.N.R. witness, that the economic study and analysis be continuous and be made not by the commission itself but by a department of it or someone outside responsible to Parliament. I have some sympathies with that but I am not knowledgeable enough and have not thought it through to give you a specific answer.

Mr. SCHREYER: I have a question which I would like to direct to Mr. Gibbings. I take it that in your brief the most recurring theme or statement is to the effect that in the proposed legislation there is simply inadequate opportunity for interested parties to be heard by the commission when it is considering application for rail rationalization, line abandonment, or when it is determining cost formula and so on. Are you still prepared to reassert that as a major deficiency, shall we say, of this proposed legislation?

Mr. GIBBINGS: Yes, this is one of our major concerns, as Mr. Parker has pointed out. In the absence of uniformity in the presentation of the case, in so far as the railroads are concerned, it becomes extremely difficult for interested parties to effectively challenge the questions. What we are suggesting is this, that the establishment of the criterion on which the case is based should be uniform, and that when these criteria are being established interested parties have an opportunity of being heard, so when a case is presented for a given line everybody understands how these figures were arrived at. So you do not have to challenge procedures and you do not challenge the arithmetic because the mechanicals will then do the arithmetic if the criteria are established. We say that this procedure ought to be established in consultation with anyone who may be interested in the effects of the computation.

Mr. SCHREYER: Mr. Chairman, I have one final question, and if it is not thought to be proper at this time, of course, the witnesses have the right not to answer. It is in respect of the procedure being followed by the government at the present time relative to branch line abandonment. The government has

proceeded to proclaim a certain network simply not eligible for abandonment until 1975. Was the procedure followed in this respect satisfactory, in your opinion, and were the major producer co-operative organizations consulted?

● (11.10 a.m.)

Mr. GIBBINGS: Certainly the procedure that is now being proposed is an improvement over the situation which had prevailed previously. As you can well understand, we were in a period of complete uncertainty with respect to the lines that were likely to go and those that would be retained, and this created great problems in so far as our organization and others being able to make investment plans that would be in conformity with a pattern of rail lines that might be available in the future. Now we are aware of the lines which will be retained until January 1, 1975, at least, and we also know those that are subject to abandonment. As I say, because of this, it certainly places us in a much better position than had previously been the case. Consultations were held with respect to this procedure with all of the organizations, I think, all of the grain companies that would be affected and probably others, although I do not know in so far as the others were concerned. But the procedure that is now being employed was discussed with us.

Mr. PARKER: As I recollect and as Mr. Hamilton probably will, it was in January 1963 that we met in Ottawa under your chairmanship, I believe.

Mr. HAMILTON: It was between Christmas and New Year's.

Mr. PARKER: Alright, between Christmas and New Year's; that is how far we go back. You will remember Donald Gordon and Mr. Crump were present, and I asked, "Will you give us a grid that is permanent" One of them—I will not name which one—said, "No, you cannot do that". That was in the beginning of 1963. From 1963 to 1966 we have had the grid. So far as Manitoba is concerned, we think this is a vast improvement over what was contemplated on some previous occasions and certainly a terrific improvement over having to appear before the Board of Transport Commissioners or whatever body may be set up to argue each individual line. The ones that are excluded from the so-called permanent grid are no worse off than they were before provided they have the opportunity to appear before the Commission decides a particular line is a loss leader. That is all we are asking. They are no worse off. Some of those are not viable lines, and I will admit that right now but the Manitoba government may be concerned about certain ones because of industries other than the grain business; we do not know. But, generally speaking so far as Manitoba is concerned, we are happy with the proposed grid.

Mr. PICKERSGILL: I wonder if I might intervene at this time because I expect to have to leave in a very few minutes to go to a Cabinet meeting. There are two or three points on which I would like to state my position.

In the first place, may I say I am very much impressed by the argument Mr. Parker has made. I do not think that the Bill as drafted now would preclude the Commission from hearing any interested party before it determined that a line was losing, but I am quite prepared to consider very carefully the possibility of making an express provision in the Act that if a genuinely interested party—that is the people living on the line or people having business on the line, wishes to intervene to controvert any evidence put up by the railways, they will have the right to do so before the decision is made, even if the line is a loser. Of course, they do have the right to appear and say that it

should be maintained anyway—that is in the Bill already. That, perhaps, is more important even than the other. I think the Minister of Finance, after all, who is going to have to pay for these losses, is going to insist on intervening himself before it is determined.

I would like to say that I am prepared to consider an amendment that would leave no doubt that genuinely interested parties may intervene to be heard before the Commission itself determines there is a loss. I am very much impressed by that argument of Mr. Parker's. I was also very much impressed, and I know all members who have had any connection with western Canada particularly will be impressed, by the general expression of doubt and suspicion that Mr. Gibbings and his associates expressed about the costing methods of the railway. Without casting any aspersions upon the railways at all, I may say that from the beginning to the end of this bill we make it clear that we are not going to accept their costs. The new Commission has to do its own costing, and it also has the right to prescribe the costing methods which are to be used by the railways. And the Bill provides that when changes are to be made in costing methods, the Commission may hold hearings before those changes are made. I say categorically that I am quite prepared to have an amendment that they must hold hearings because, here again, we do not want anyone to feel that this Commission is going to be biased in favour of anyone but the public.

I come, finally, to the most important point of all. I think there does seem to be some misunderstanding among certain members of the Committee and even among the witnesses about the real nature of the Commission. I thought Mr. Deachman went a long way to clear that up by reading from the bill itself. The Commission is to have two functions that are not totally distinct, and I do not agree with the C.N.R. in their view that they should be totally distinct; otherwise I would not have brought the bill in the way it is. I can understand, perhaps, the railways not wanting the government to have at its disposal an independent research organization because they think if we did not have one, we would be more dependent upon them. I do not want to be dependent upon them. After all, when the railways do research they do it from the point of view of the railways, but the research we want this Commission to do is from the point of view of serving the public.

It must be remembered as well that the Commission will still have a quasi-judicial function in determining which lines are to be abandoned or are not to be abandoned, in determining the maximum rate, in determining all these things that require a judicial act. I think it should be understood by everyone that these decisions cannot possibly, unless we abandon our whole concept of the independent judicial decision from politicians, be reviewed by parliament or a Committee of parliament because that would be the same as saying that decisions of the Supreme Court should be reviewed by parliament. There is a judicial process that was established in 1903, and unless we have an entirely different concept of these things than any government has ever had, it is certainly not contemplated to be changed in this bill. Those decisions which are judicial will be made, and there are certain forms of appeal through the courts and on certain questions of fact to the governor in council. Also, I think we should make it clear that the commission is not a crown company at all. It has or will have some jurisdiction over crown companies such as the Canadian National Railways and Air Canada, but it is itself not a crown company; it will

be a court of record and a research organization, if the bill is accepted in its present form. As Mr. Deachman has very properly pointed out, it will have two vice-presidents, one in charge of research and one who will, under the chairman, have a certain general oversight and supervision of the judicial, quasi-judicial and regulation function. But it is not contemplated—and I think in this regard I would agree with the witnesses this morning and I would also agree with Mr. Bandeen—that the commission will disregard the law in carrying on research. The research will primarily be to enable the government and the public to be informed about new things that need to be done in the field of transportation, improvements and things of that nature. Its function will not be to interfere with the regulatory function, but it may be that in carrying out the regulatory function, the regulatory bodies may want an answer to a question of fact. This can only be provided by research, and that is where I think it will be very helpful to have within the same organization a research body that can do this research and provide to the regulatory body, independently of the railways or of any other interested person, the best available information on which they can make a correct decision. But they will not turn over to the research body the function of making any decisions. All they will do is ask them for factual guidance so they can make their decisions in the light of the facts. That is all.

● (11.20 a.m.)

Mr. BELL (*Saint John-Albert*): May I ask the Minister a question apropos to the first part of what he said. I hope he would agree that if, for example, the commission decided there was a *prima facie* case that a ferry be taken off between Nova Scotia and Newfoundland, that an opportunity be given to all the M.P.'s that are affected to bring this before the commission. In spite of the high mindedness of Mr. Deachman, I would think we would have a political responsibility to definitely deal with that and refute it with the most expert advice that we can obtain.

Mr. PICKERSGILL: I do not think there is any doubt about that. In the first place the commission, under this bill, would have no jurisdiction in that field at all. I can assure Mr. Bell, that he has picked an instance in which I would be in total agreement with him, but the fact is that the commission has no jurisdiction at all in respect of the removal of ferry services.

The CHAIRMAN: Before the Minister leaves, there is just one final question Mr. Horner would like to put.

Mr. HORNER (*Acadia*): I would like to ask the Minister how the research part of this commission will function. You say it would function for the public.

Mr. PICKERSGILL: That is right.

Mr. HORNER (*Acadia*): Why is it then in Bill No. 231 on the explanation page it states:

The Commission may publish confidential figures in support of recommendations. The Commission may also make recommendations—

Why does not the bill say, the commission *shall* publish confidential figures or publish figures—I do not care whether they are confidential or otherwise—in support of this recommendation? In other words, the research part of the commission can ascertain figures to support its findings and John Q public may

or may not know of those figures. This is how an independent economic research council on transportation would make its report public and then these people who are affected by the abandonment of the service or the abandonment of the line would have something to dispute. But here it all may be hidden.

Mr. PICKERSGILL: I might say, in the first instance, that the section to which Mr. Horner referred has nothing to do whatever with the research functions of the commission.

Mr. HORNER (*Acadia*): Well—

Mr. PICKERSGILL: May I answer the question. I have listened politely to the question.

Mr. HORNER (*Acadia*): I have been interrupted too. I remember quite well when I made my speech in the House of Commons.

The CHAIRMAN: Order, please.

Mr. PICKERSGILL: I do not mind interruptions, but it is rather hard to understand something if the sentence is broken in two by even the most eloquent interruptions.

What I started to say was that section 314D of the bill, to which Mr. Horner made reference, deals with a regulatory function of the commission; it does not deal with its research activities at all. This is a provision relating to what it may do in rendering a judicial decision. I think we ought to discuss that at some length when we come to that in the clause by clause examination. But it does not appear to me to be related directly at all to what the wheat pools are bringing before us today.

Mr. HAMILTON: What the minister has said today in effect contradicts the whole solution of the wheat pools. If I may make this clear to the minister, what we are worrying about—

Mr. PICKERSGILL: When you say “we”, Mr. Hamilton, could I ask you who that means?

Mr. HAMILTON: I will clarify that. “We” are those who had to spend most of our lives trying to protect our economic interests in this matter before the Board of Transport Commissioners. Rightly or wrongly, Parliament laid down certain things in the statute and we turned this over to the Board of Transport Commissioners, and over the years, they have to act (a) on the statute and (b) on the precedence of their own decisions.

Mr. PICKERSGILL: That is right.

Mr. HAMILTON: And over the years, the weight of these precedents were so inclined toward railway costing and the opinion of the railway on everything, that we felt in the west that this was not sufficient protection. We do not think that the protections or checks in previous legislation, or even in this legislation, are sufficient. Therefore, this submission coming from the co-operative producers who are one of the largest customers of the railway, was their concern over this question of the control of this giant bureaucracy that you are now setting up, because besides their judicial function they have, in effect, an administrative function. They are part of the rationalization; they are directing a whole

transportation policy of the future. You cannot separate the judicial from the administration section side of their function.

What is concerning us, as I read this brief, is that we have a good bit of legislation here which we could tighten up by making it quite clear that there is some extra protection given in the form of an advisory board as they recommend or, to go on a little further, to try and give this Committee of the House some professional help that could best examine this information coming from the research group of the transportation commission, so we could put up a better case. This has been their case throughout the submission, and I thought they had reputed under questioning that they were prepared to go even further on what they had recommended. I was going to go on further in my statement about how we could tighten up the act; but if we have to look at the act as turning over all the power of running our whole transportation system to a judicial board this, surely, is not the intention of the Minister.

Mr. PICKERSGILL: No, Mr. Hamilton. How could any such construction be put upon my words. What I said was that the board did have certain judicial functions which the existing boards now have. That is all I said. I did not say that was the sole function of the board. It seems to me that in a great many ways the whole scope of the board's judicial and administrative functions are vastly reduced by this bill, because the whole area that is going to be subject to regulation is vastly reduced.

I agree with you that if there is any section of the community that is at the mercy of any one form of transport and is inadequately protected by any of the provisions of this bill and if anyone can suggest any way of protecting them better, I am prepared to consider amendments of that sort. It would be impudent of me to suggest that if a Parliamentary Committee wants to get technical help, either to consider a bill or to examine the Department of Transport, the Canadian National Railways or anyone else who is before it, that it should not be allowed to do so. I think Mr. Bell will attest that I have given the utmost co-operation in trying to get the Committee help for the examination of this bill.

● (11.30 a.m.)

As to the suggestion made by the pools for the establishment of an advisory committee, I am well aware that this was a recommendation of the MacPherson commission. We decided, after a lot of consideration, to go beyond that and to establish a single Canadian transport commission which would have a direct research function, but the measures in the bill came to be pretty complicated, but, without making further provision for statutory advisory committees, I would think there would be no inhibition upon either the commission or the government in establishing ad hoc committees of the kind suggested in the brief this morning. I would have no objection whatsoever in having a clause put in the bill to make that possible. Therefore, I do not think I would have any quarrel whatsoever with the submission on that score.

The CHAIRMAN: Thank you, Mr. Pickersgill. Can we proceed with the questioning?

Mr. STAFFORD: Mr. Gibbings, do you actually take the narrow view of Mr. Gordon, as Mr. Horner put it, that you cannot name any captive shippers?

Mr. GIBBINGS: It is a question of interpretation, I suppose. It is difficult to envisage a situation where there is no other method of moving a product. There

are relative degrees of captivity, however, in this area, which you would recognize. There is greater competition in some areas than in others.

Mr. STAFFORD: Mr. Hamilton asserted that the railways own most of the trucking firms and thus there is no effective alternative. Do you agree with this?

Mr. GIBBINGS: If you are asking do I agree that most of the trucking firms are owned by the railroads, the answer is no.

Mr. STAFFORD: I am just repeating what Mr. Hamilton said. I said that Mr. Hamilton asserted that the railroads own most of the trucking firms and thus there is really no effective alternative. Do you agree with that, or not?

Mr. GIBBINGS: I have just said that I do not agree that most of the trucking is owned by the railroads.

Mr. STAFFORD: Trucks owned by the railway are part of the railway, are they not?

Mr. GIBBINGS: Certainly, they are owned by the railroad—they are part of the railway.

Mr. STAFFORD: Mr. Horner went on to say, further, that to prove that you are a captive shipper you must be a 100 per cent captive shipper, to get any relief under Bill No. C-231. Do you agree with that?

Mr. GIBBINGS: No; under Bill No. C-231 it suggests that a public enquiry may be held by the new commission where there is a *prima facie* case that the public interest has been prejudicially affected.

Mr. STAFFORD: That is not quite the answer. You do not agree, then, that to prove that you are a captive shipper you must be a 100 per cent captive shipper, to get any relief?

Mr. GIBBINGS: I did answer the question, and read the section which dealt with it. I said that under Bill No. C-231 a public enquiry may be held by the commission where a *prima facie* case can be made that the public interest is prejudicially affected.

Mr. STAFFORD: I suppose you have read section 336 of section 1 of the new bill, have you?

Mr. GIBBINGS: I have read the bill, but I do not recall what that section says.

Mr. STAFFORD: What adjectives would you add to "alternative, effective and competitive service" to more effectively define a captive shipper?

Mr. GIBBINGS: Any suggestion, with respect to that particular question, was that even if an individual may find himself in a position where he felt that he was being prejudicially affected, it is not always easy for that individual to go through the procedures which are required in that connection.

Mr. STAFFORD: I will get to that in a minute. Will you just answer my question? Since you are complaining, I suppose, through the words of Mr. Horner and Mr. Hamilton—I know they put words in your mouth—what adjectives would you add to those already set out, "alternative", "effective" and "competitive," which would more effectively give what you might call a captive shipper protection?

Mr. GIBBINGS: I did not attempt, earlier or now, to define what a captive shipper was. You are the one who decided that particular question.

What we suggested in our presentation was that we are concerned that the captive shipper, whoever he may be, in areas where there is less than effective competition, be protected under the bill itself, and the only suggestion—

Mr. STAFFORD: We heard here the other day questions indicating that even tractors might be taken apart and the wheels shipped separately, and so on. An “alternative, effective and competitive” service would be fine and would give pretty broad scope, would it not?

Mr. GIBBINGS: Yes, I think it would.

Mr. STAFFORD: Will you just take a minute to see whether you could think of anything you could add to that section to give any more protection to the individual? We have spent hours on this item. Could you add anything to it that might give Mr. Horner, especially, another adjective which he might bring into this, to give more protection?

Mr. GIBBINGS: This is exactly what we had suggested, that in cases where there is no alternate or effective, or competitive service, protection be granted. If you are satisfied that it is granted—

Mr. STAFFORD: “Alternative service” would mean, I take it, a similar service, would it not?

Mr. GIBBINGS: An alternative would have to be something that is effective and competitive.

Mr. STAFFORD: Then the three would cover almost everything? You could not add anything to it?

Mr. GIBBINGS: No. I think that with “alternative”, “effective” and “competitive” this covers the subject in question.

Mr. STAFFORD: And the trucking firms owned by the railway are really part of the railway?

Mr. GIBBINGS: I cannot see how they can be described in any other way, if they operate under the same management.

Mr. STAFFORD: You say that the individual could probably not afford to go through the procedure set out in the bill. Why did you say that?

Mr. GIBBINGS: There is time involved, either by the individual or a representative of the individual, in going through these procedures; and it may not be of such earth-shaking importance, but at the same time it is costly to the individual. It might be less costly for him to assume the cost than it would be to attempt to go through the procedures which are established under the bill in order to get redress. In other words, it will be accepted as the lesser of two evils in attempting to do it as an individual.

Mr. STAFFORD: The point I am getting at is this: Would you not generalize quite so much, and could you set out some specific instances, or even one, where it would be expensive to the individual.

Mr. GIBBINGS: You know, you can go to any extreme.

Mr. STAFFORD: Just name one.

Mr. GIBBINGS: All right; Meadow Lake, Saskatchewan. A man has one cow which he wishes to ship to market—

● (11.40 a.m.)

Mr. STAFFORD: Is this an example?

Mr. GIBBINGS: Suppose it cost him another 10 per cent to ship it and he felt that the competition was not there. It would hardly seem to me to be worth his time and effort, either as an individual, or to hire somebody else to carry his case through the procedures.

Mr. STAFFORD: Provided you feel, Mr. Gibbings, I take it, that there is not in Meadow Lake a truck big enough to carry that cow to market, as an alternative service. Is that what you mean?

Mr. GIBBINGS: Well, of course, there would be one large enough. I am talking about the effective, competitive competition. If it were his belief that these circumstances did not prevail in this instance, and he had a small quantity of any product, it is likely that he would accept it, even though he felt that he was being discriminated against rather than go through the procedures to have redress.

Mr. STAFFORD: There are trucks, though in the area of Meadow Lake, are there?

Mr. GIBBINGS: I expect so. It does not necessarily make them competitive.

Mr. STAFFORD: Would not the research facilities of the commission be available to these people and to the members of Parliament, in your estimation.

Mr. GIBBINGS: I expect that they would be; and it may be that to have complete faith in the independence of the research, I think, you ought to have access to at least testing it from time to time, which is what we have suggested.

Mr. STAFFORD: Any advisory council in the form that you have suggested would have to be of similar magnitude as the commission to be very effective, would it not?

Mr. GIBBINGS: The function of the advisory committee that we have suggested would be, as I stated earlier—it may have been unclear, to keep—

The Chairman: Mr. Andras, I wonder if you could remain to keep our quorum intact?

Mr. ANDRAS: I am sorry.

Mr. GIBBINGS: —to keep the commission in touch with the rest of the world. I have a suspicion that occasionally research groups, in their “ivory towers”, become so engrossed in their own activities that they fail to see the broader picture.

The function that we could see being performed by the advisory committee was to bring this broader public concern before the commission.

Mr. STAFFORD: But you still have not answered my question about whether it would have to be of a similar magnitude, to be as effective. It would have to be of some magnitude, would it not?

Mr. GIBBINGS: Not to perform the function that I have outlined.

Mr. STAFFORD: Do you not think it would be better that individual committees might be set up at times to do effective work, rather than duplicate all the work of the commission in its research facilities?

Mr. GIBBINGS: I would not think it would be necessary to duplicate it all.

Mr. STAFFORD: I have one other question. Do you feel that the transportation companies, and especially rail companies, should expose all their figures to public examination? That is, to make them public.

Mr. GIBBINGS: If decisions are going to be made based on those figures, which are going to affect the public, I think, yes.

Mr. HAMILTON: Mr. Chairman—

The CHAIRMAN: Excuse me. I would like to bring to the attention of the Committee that it is our intention to adjourn at one o'clock. I am wondering, if we have finished questioning these witnesses at one o'clock whether the clerk could be invited to cancel the 3.30 meeting so that Mr. Gibbings can make arrangements to leave? I just want to ask the members of the Committee whether it may be necessary to sit this afternoon at 3.30?

Mr. HORNER (*Acadia*): It is pretty difficult to say. It is only a quarter to twelve, sir.

The CHAIRMAN: We will proceed until one o'clock, and leave it at that.

Mr. HAMILTON: Mr. Chairman, in my original questioning I was concerned with the matter of the control of the commission.

Under this bill we are setting up a very large, giant bureaucracy not only as a judicial organization but also as a one to guide and direct the rationalization program of our whole transportation system.

We have gathered from the witnesses the idea that they would like to see more educated layman control over this research group and over this board in the carrying out of these tremendously important functions.

I went on to raise the question of still giving Parliament some way of keeping the machinery alive so that Parliament could control this vast, powerful bureaucracy covering so much of our economy. I would like now to continue that questioning on a slightly different line in connection, primarily, with the rationalization purpose of this legislation.

Under this legislation, the commission in several places in the bill has been given power to recommend. In your brief you suggest that this power of recommend should be backed up with some teeth. There are two ways of getting teeth. One is to make arbitrary directions by Parliament mandatory on the board, and the other is to provide some financial incentive.

Do I correctly understand your brief that it says you prefer the subsidy removal, or the giving of a form of incentive, rather than the use of an arbitrary direction by Parliament.

Mr. GIBBINGS: Yes; we think that the withholding of subsidies—if I may use the term—which would otherwise be available to the railroads, would be an effective persuader.

Mr. HAMILTON: In other words, that we amend this bill so that if the commission recommends a certain thing then that the bill should include a clause that if they do not follow the recommendation subsidies be not paid?

Mr. GIBBINGS: Yes; that the commission have the authority to withhold the subsidy.

Mr. HAMILTON: Continuing along this line I would like now to come to one important part of the rationalization procedure, which is a matter which affects us at the moment mostly in western Canada, but it could very well affect any part of Canada: The abandonment procedures now are laid down in the bill. I am not going to discuss those at the moment, but come at it in a different way.

In view of the proposal by the government that we give a list of lines, the abandonment of which shall not be applied for in the next eight years, would you agree to a suggestion that in the case of all of these lines which are up for debate—under whatever type of procedures we set up under the bill—there should be a hearing, as a mandatory provision of the bill?

Mr. GIBBINGS: Yes; we feel strongly on this particular matter, and that provision be provided for a hearing in all instances.

Whether a hearing is held, of course, would be determined by the people who are going to be affected by the action which is being proposed. But the opportunity to be heard should be available on any of these questions.

Mr. HAMILTON: It is to be made absolutely clear, then, that these 1,500 miles are up for debate in the bill, and we all agree that this present framework of guarding certain lines in the next eight years be accepted. The lines are going to be up for debate but you would be in favour of it being clearly understood that there be a hearing on every case.

● (11.50 a.m.)

Mr. GIBBINGS: Yes.

Mr. HAMILTON: My second question is: After these hearings are held, and after the eight year period is up, have you any thoughts on whether the mandatory provision should apply then to any future lines up for abandonment?

Mr. GIBBINGS: Yes, as a matter of principle, we feel that if a service is to be withdrawn, the people who are affected by that service ought to have an opportunity of being heard before a decision is made.

Mr. HAMILTON: In that case, should the decision or the matter be discussed purely on the costing of that line from A to B, or should it be discussed on an area basis or on the basis of the whole economics of whether that piece of railway line adds or subtracts to the costs of running that railway.

Mr. GIBBINGS: We have felt, right from the outset that the whole broad question ought to be considered. That was the reason why we had advanced the idea previously that the area concept be the basis upon which a judgment is made regarding the transportation requirements of the area, rather than a single line.

In this particular connection, we feel that it is possible, under certain instances, to have improvements to the railroads with a minimum of disruption to the user, by doing things in addition to or, alternately, to abandonment itself: for instance, joint running rights and the change of ownership and the switching of ownership from one railway line to the other, in order to work that particular geographic section into a flow of a railway system, so the product can be moved from its point of origin to its destination at the lowest possible cost to the railways and to the shipper.

Mr. HAMILTON: Now getting down to specifics, on page 25 of the new bill, section 314D, where the rationalization in so far as railway line abandonment is discussed, it states:

In the exercise of its duties under section 314C the commission may recommend to railway companies the exchange of branch lines between companies by lease, purchase or otherwise, the giving or exchanging between companies of operating rights or running rights over branch lines or other lines of railway, the connecting of branch lines thereof with other lines of the company or another company, and the abandonment of operation of branch lines in respect of which no applications for abandonment have been filed with the commission.

Now I think it can be readily understood that this section is very important in the rationalization. It gives to the commission powers to look at a whole railway pattern and to suggest what would make good railway operation. But all they can do is recommend. Take paragraph (a) of this section. You believe that if the recommendations are not acceptable, or not carried out by the railway, they lose subsidies under some section of this act that they would otherwise receive. We have that question answered from you.

My other question comes down to details. If one looks at the map of lines to be preserved, one still can see operations on that map that do not make good sense from a rationalization point of view. Take, for instance, of the lines which you know and I know, the line that runs through Dinsmore and Eston and east to the junction at Tichfield. Grain is carried north up to Delisle, and on into Saskatoon and then brought back south again. Here we have grain that is hauled probably 200 miles farther than necessary. What part does the co-operative company feel they should play in suggesting means of improving that particular case. I do not want to pin you down on details. Do you feel you have some responsibility as the major customers of the railways in suggesting ways to them that they could save money in their own operations. That is the basis of my question.

Mr. GIBBINGS: We would expect that this would be the sort of thing that the research section of the new transportation commission would be examining and making recommendations upon. Nothing is static in this particular area, because of changes in market demand and this sort of thing. With the increased utilization of west coast facilities, it has resulted in grain being moved from a position further east in Saskatchewan than had been traditionally the case. In order to get grain west, it is frequently necessary to move it against the back haul, that you have referred to, in that instance up to Delisle and to Saskatoon and then east.

Mr. HAMILTON: Mr. Chairman, may I, for the sake of clarity to the Committee, stand in front of that map.

The CHAIRMAN: Mr. Hamilton, before you start you will have to take a microphone along.

Mr. HAMILTON: Mr. Gibbings what we are talking about, for the sake of the record, is the desire of those interested in the economic handling of our grain haul in western Canada to reduce the costs, so there will be no possibility of doing things which are uneconomical and which would add to the costs of carrying grain, so they could prove there was a loss on the prorates.

What I am referring to is that here we have a C.N.R. line coming across all of Saskatchewan which is the second heaviest grain generating area in western Canada, and it goes down to Tichfield and the present C.N.R. line goes back to Delisle into Saskatoon, then proceeds on the main line to the ports at Fort William. It is obvious, in looking at the map, that the heavy line should continue, in this particular instance, across the river, and the C.P.R. freight should run down this way and out. That would be an efficient operation for that train and it would save the 200 miles of back haul.

Mr. GIBBINGS: I think the general question can be answered in this way. We feel that the objective should be to move the grain from its point of origin to its destination at the lowest possible cost and if this means a transfer of the cars from the C.N.R. to the C.P.R., or vice versa, this ought to be done. The tendency is, I think, to move the grain that is originated on one line, on that line to its destination regardless of the distance that it has to be hauled in order to do it. In other words, it might have to be hauled a considerably further distance, as you have pointed out, by retaining it on that line right to its destination than it would if it was transferred to another line at a given point. We suggest that this seems to us to be a logical thing to do.

I recognize that in doing this there would be a division of costs between the two railroads, which might, at one point in time, have been difficult to calculate, and to compute. I do not believe that it is impossible to achieve this now with the use of computers and other devices that are available to the railways. As I have indicated, this situation, with a varying pattern of grain movement that is established by the Canadian Wheat Board in an effort to meet market requirements out of the Lakehead, Churchill or Vancouver, changes from time to time. Therefore, it becomes difficult to lay down a fixed pattern in that area. But if the principle was established, and agreed to by the railroads, that the grain be moved at the shortest distance, the shortest number of miles of railroad travel, that this would be advantageous to the railroads, would not be disadvantageous to anyone else and this policy ought to be adopted and its use encouraged in the movement of the product.

● (12 noon)

Mr. HORNER (*Acadia*): I have two lines of questioning, one on line abandonment and the other on this captive shipper idea and competitive rates. Mr. Gibbings, you and I agree with section 336, I think, in that the narrow definition of "captive shipper" we would hope would not be accepted by this new commission. About 44.4 per cent of the freight, other than the grain traffic, that moves from the west to eastern Canada moves under what are generally called class or non-competitive rates. What would your definition be of these non-competitive rates? Would this be good enough to qualify them for a hearing? Suppose you are a shipper—and I know the wheat pool is in many cases, either shipping in to or out of the prairies—and are shipping today goods, whether they be fertilizer or equipment for use in crop spraying, or whatever the business is, and you are now receiving what is commonly accepted as a non-competitive rate, when this new bill passes, would you feel justified, if the volume were great enough, in appearing before the new commission—if, of course, you thought the rate was too high—to ask them to rule on your case?

Mr. GIBBINGS: I am sure that we would have no hesitation in doing so if we felt that we were being unjustly treated under the circumstances. We would be sufficiently large, in so far as total volume would be concerned, to justify it.

Mr. HARROLD: It might be a help to Mr. Horner just to recite four matters that are at issue at the moment on this question to give you some idea. Already there has been discussion of the matter of certain rates as they affect livestock. These are called competitive rates. There is in addition, currently subject to increase, a number of agreed charges we have with the railway about more than one commodity. That is the second issue. The third is, would it affect the output of our flour mills, the output of our vegetable oil plant to name two. And then there is the question of a lay-off charge which has to do with flour, wheat moving in transit from our flour mill to export position. It is subject to an increase. These three matters are under consideration to be contested. I am not saying we have reached a decision, but your question was, would we consider it. It is now being considered.

Mr. HORNER (*Acadia*): Fine, I appreciate that.

Mr. HARROLD: And they are sizeable, each of them.

Mr. HORNER (*Acadia*): This is the fear that I have had; and, of course the other witnesses, from the CNR mainly felt that nobody ought to be able to appeal unless it affected 100 per cent of his traffic. This, of course, I disagreed with and I am pleased to see that you people do not take that narrow point of view, either.

Mr. HARROLD: Each of these rates affects 100 per cent of the traffic affected?

Mr. HORNER (*Acadia*): Yes, but you can not appeal 400 per cent of the traffic, because you have not got it; you do not handle it. With regard to branch line abandoning, what can be done? Let us take the Dodsland-Loverna line, for example. It is going to remain. One end of it is going to be chopped off; the other is going to remain until 1975. But the railways have ways of achieving their ends. From now until 1975, the railroads could, very easily, cut down on the maintenance of that line; in other words, let the line go to pot. Then in 1975, they could say to this commission—this is what they have done in other services, passenger service; the “Dominion” is a good example, they discontinued it. They told this Committee, they told the Board of Transport Commissioners, that it would cost millions of dollars to refinance the “Dominion” train; that their cars were outdated, that the traffic could not stand the recapitalization of that service. Well, this is what they have said in the past with regard to lines that they want to abandon. They say, this whole line has to be rebalasted; this whole line has to be rebuilt; heavier track has to be laid; the recapitalization pretty well prohibits us from continuing and maintaining that line. Now, what can this new commission do to bring about any real security after 1975, because, as I said, they could just cease to maintain the Dodsland-Loverna line, and it could probably last, with slowed-up traffic over it, until 1975, and then they could go to the commission and say that to put it in condition the capitalization would be too great.

Mr. GIBBINGS: Well, I recognize that there are a number of ways in which the railroads can effectively attain their ends, by providing service that the shippers consider to be inadequate, which forces them—or at least they make their own judgment—to transfer their delivery point to another line, which reduces the volume on the original line, making it possible then to prove that it is uneconomic.

Mr. HORNER (*Acadia*): Yes, this is another way they have, I agree.

Mr. GIBBINGS: I would not categorically say that this has been done, but my observation would tend to make me believe that has happened on occasion, too.

Mr. HORNER (*Acadia*): If we had in Canada a national transportation research council, an economic research council, and if the shippers on the Dodsland-Loverna line felt, between now and 1975, that the CNR was making plans to abandon that line; they had cut out practically all maintenance on it, and were, in other words, letting it slowly deteriorate, they could then appeal to this independent commission and say, we believe this is the railroad's intention; we believe it is unfair; they are now making enough to cover a proper maintenance. Do you not think it would be advisable to have a council that the taxpayers and ratepayers could appeal to and get what might be called an independent hearing?

Mr. GIBBINGS: I believe that the shipper, in whatever manner, ought to have a forum to which his concerns in this regard could be made known. Now, how this would be established I would leave to your own judgment and recommendation, but because of the fact, as we have pointed out, there are ways in which conditions can be created which would lead to the eventual removal of the line on the basis of the criteria that have been established for that purpose, it seems to me that people who are aware of this development should have an opportunity of making those concerns known. As I say, I have no firm views as to how this might be done, but I think the interests ought to be protected.

Mr. HORNER (*Acadia*): One further question or two, Mr. Chairman. You answered, Mr. Gibbings, to Mr. Stafford's question earlier that you believe that if the facts and the figures ascertained with regard to a given shipment by the railroad were used and they affected the public, they should be made public. Am I right?

Mr. GIBBINGS: I believe any facts on which a decision is made that adversely affects, or affects, the public the public ought to have an opportunity of examining them and making their views known on them.

Mr. HORNER (*Acadia*): And therefore you would, I think, agree that Section 314, which may well do what the Minister says with the regulations that this Board brings about, but it states that the commission may publish any traffic figures. It says that it may, but it does not have to. This is my contention, that, in order to give the public justice and fair treatment, this commission, once established, should have to publish, or, at least, on the requirement of the public it should give the public the figures on which it bases its recommendations.

● (12.10 p.m.)

Mr. GIBBINGS: I think the latter statement is the one we would concur in. I would not suspect that under all circumstances all the figures should be mandatorily made public; but if the public wish to have them made public it seems to me that they should have the opportunity of having that done.

Mr. HORNER (*Acadia*): One further question, Mr. Chairman. I believe, Mr. Gibbings, that one of the statements made by the MacPherson Commission was that there was an appalling area in which the public was unable to obtain accurate figures regarding transportation in Canada. They did not necessarily

blame D.B.S., but they said that there should be more figures published in regard to costing and pricing in transportation fields today.

Do you remember something like this in the MacPherson report? I think this was one of the things they found in regard to transportation. Am I right?

Mr. GIBBINGS: Yes; as I recall, they felt that there was insufficient information on which they, or others, could make sound judgment with respect to transportation.

The CHAIRMAN: We will have a one-sentence supplementary from Mr. Bell, followed by Mr. Fawcett who has not yet had an opportunity to speak, followed by Mr. Stafford who wants to question again.

Mr. BELL: (*Saint John-Albert*): Supplementary to Mr. Horner's question about the publishing of these figures, do you agree that these figures should be published even if the railways can show that to do so would be detrimental to their competitive position?

Mr. PHILLIPS: Mr. Gibbings, the question at issue, if I could just explain it, is the proposition that the Commission is a body that is being set up that may require of the railroads confidential data, and if the confidential data is used in making a decision, then it may publish it. I would think, Mr. Gibbings, that we ought to consider, and take advice on, this one. This is a question which should not be answered hastily.

Mr. BELL (*Saint John-Albert*): A further supplementary: one section of Act prescribes the various costing methods, through previous decisions, that are used and accepted. Do you think these need revision? Are you happy with this section in the act—I think it is 387—which accepts the previous methods of costing?

Mr. PHILLIPS: We deal with that in quite some detail, Mr. Bell. That section of the Act now says that the Commission shall determine cost components. We would like to be heard when that happens, as of day one; and also when there is change, starting from yesterday. We take nothing as having been done—this is what we are saying.

Mr. FAWCETT: I would like to direct my question to Mr. Gibbings. This deals, again, with captive shippers. There seems to be great variety of opinions on how to define a captive shipper.

Mr. Gibbings, I am going to refer to the potash industry, because it is chiefly in your province. In view of the fact that it would be unrealistic for them to handle their product, and also due to the fact that there is such a volume of it, would you consider the potash industry as a captive shipper?

Mr. GIBBINGS: I do not believe there is a practical alternative at this stage to the movement of potash, any more than there is to the movement of grain. Theoretically, you can move grain from any point in Saskatchewan to the Lakehead by truck, but it is not a practical way. The same is true of potash.

I realize that there is research now being made to determine other ways—pipelines, for instance—for the movement of solids, but up to this point there is no other effective way of moving it.

Mr. FAWCETT: In other words, this would be your definition of a captive shipper?

Mr. GIBBINGS: This would be an instance where there was no other effective competition in the movement of the product.

Mr. FAWCETT: I do not know to whom I showed direct my next question. It would be to the Minister of Transport if he were here. I do not know if it would be fair for me to direct it to his associate, or not. However, it was my understanding from Mr. Gordon's so-called narrow interpretation of captive shippers that what he meant was simply this, that you could not interpret a shipper as a captive shipper who had negotiated with the railways a rate that was acceptable to both the railways and the shipper. If he was not satisfied with this rate, he could request that he be designated as a captive shipper.

I would like to get my thoughts clear on this. I am only trying to clear up my own ideas. If he were designated as a captive shipper, they would go into all these matters such as arriving at the maximum rate, according to the costing techniques used, in order to arrive at the cost of handling this product.

I would like to ask the associate Minister if, in the act, it is meant to be interpreted that anyone in the position of the potash industry, who has negotiated a rate, is to be interpreted as a captive shipper. That is rather an odd question, but could you answer that?

Mr. J. TURNER (*Minister without Portfolio*): I do not want to go into that at the moment, but it may be that the situation of a captive shipper could exist even if there were an agreed charge situation.

Mr. FAWCETT: I will not pursue that any further.

Mr. TURNER: We would be prepared to make further comment on that when we get to the definition of "captive shipper" in the clause by clause review of the act.

The CHAIRMAN: Mr. Turner was not here at the time Mr. Gordon was here, Mr. Fawcett, but the way you stated it was how I understood it and also how Mr. Gordon interpreted it.

Mr. FAWCETT: He was not exactly expressing a narrow view, as far as the interpretation of the captive shipper was concerned, but when he said that he could not think of any captive shippers, I think he was referring to people who perhaps otherwise could be designated as captive shippers, who were operating on a negotiated rate that was agreeable to both the railway and the company.

I know this is unfair to you, Mr. Turner, and I will not pursue it any further. I will pass for now.

Mr. STAFFORD: My line of questioning, Mr. Gibbings, is mostly toward the point of making mandatory the exposing of figures of transportation companies. You want more time to think it over, I take it.

Mr. GIBBINGS: We would like to examine the ramifications of it.

Mr. STAFFORD: You indicate on page three that your compass does a large amount of business. What would be the total value of goods which your company would ship in any one fiscal year, approximately, by all means of transportation?

Mr. GIBBINGS: We shipped something in the order of 240 million bushels of grain last year. In order to get the value of it you would have to have a

breakdown of how much of it was wheat, oats, flax, barley, rye, rapeseed, mustard seed.

In addition to that, we handle approximately half of the livestock in the province. We shipped about $2\frac{1}{2}$ million bushels of wheat in the form of flour, and about a million bushels of rapeseed in the form of oil and meal; we shipped, last year about 144,000 tons of fertilizer from our fertilizer plant. In total, therefore, we do use the transportation facilities to a considerable degree. I am talking only about our own when I say that. I am talking about Saskatchewan. If you add in the shipments from the Alberta pool and the Manitoba pool, of course, they would be much larger.

● (12.20 p.m.)

Mr. STAFFORD: On page 2 you have the date the three wheat pools were founded as being between 1923 and 1924. Was your company incorporated at the same time?

Mr. GIBBINGS: No; the Alberta pool was incorporated in 1923, and the Saskatchewan and Manitoba pools in 1924.

Mr. STAFFORD: When was Canadian Co-Operative Wheat Producers Limited incorporated?

Mr. GIBBINGS: Canadian Co-Operative Wheat Producers Limited was originally the organization which was the central sales agency for the three pools in the movement and sale of grain into international markets. With the advent of the Canadian Wheat Board as the marketing agents, Canadian Co-Operative Wheat Producers Limited, as such, became the co-ordinating body between the three wheat pools.

Mr. STAFFORD: But when did the incorporation take place?

Mr. GIBBINGS: It took place in 1925, I believe—I am sorry, 1924.

Mr. STAFFORD: Just to give one a better idea on your submissions on page 3—would you tell me what would be the total assets of the company today?

Mr. GIBBINGS: Are you talking about the Canadian Co-Operative Wheat Producers Limited?

Mr. STAFFORD: Yes.

Mr. GIBBINGS: It is practically nil. The assets are held by the Saskatchewan wheat pool, the Alberta wheat pool and the Manitoba wheat pool.

Mr. STAFFORD: Another question along those lines was brought up by you, that you sell only to your members and have no intention of selling to anyone else. In that case, how does a farmer become a new member of your company?

Mr. GIBBINGS: He simply applies for a share in our organization, which costs him a dollar.

Mr. STAFFORD: There was one point which Mr. Hamilton pointed out to you at the start of his first question. He said that Bill C-231 is setting up a large and giant bureaucracy. Do you agree with that?

Mr. GIBBINGS: Is is again a question of semantics, I suppose. How big is large?

The CHAIRMAN: Statements of personal opinion are not within our scope; Mr. Stafford.

Mr. STAFFORD: Mr. Chairman, with respect, it still formed part of Mr. Hamilton's question. My point in my other examination was that if the witnesses do not agree with any part of a question and then continue on to answer, they might be expected to concur with it. I feel I am justified in asking him if in his answers he did, in fact, agree with this submission by Mr. Hamilton.

The CHAIRMAN: Well, I think the witness has already answered that, Mr. Stafford.

Mr. STAFFORD: Well, in my submission he did not.

There is one more question along similar lines. Mr. Horner mentioned to you the narrow definition of "captive shipper". Since my last question to you regarding the definition of "captive shipper" have you thought of any more adjectives which would make that section more effective?

Mr. GIBBINGS: No.

Mr. STAFFORD: Then it really is not so narrow after all is it?

Mr. GIBBINGS: Well, I did not say it was narrow, to start with.

Mr. STAFFORD: But it was the start of Mr. Horner's question. As I said before, they are allowed to put words in your mouth and you continue on to answer the question only partly.

Mr. GIBBINGS: And they are not exclusive in that regard.

Mr. STAFFORD: If you feel that my questions are pointed then I feel that you should point that out, too that if you do not agree with part of the question you should point out the part of the question which you are answering.

Mr. GIBBINGS: We appreciate the advice.

Mr. BYRNE: Mr. Gibbings, Mr. Hamilton made quite a point today, and I believe, on another occasion—I cannot recall just where it was; perhaps it was in the House—that there may be great wastage in the matter of haul back, and we have had some specific examples on the map. Do you not think it is conceivable that railway management should determine, because of specific conditions such as grade, road bed and so on, that they may find it more efficient to use a line, or a route, that would be a 100 miles or so longer. Would this not be something for determination by—

Mr. GIBBINGS: Yes, of course; there may be extenuating circumstances which make it not only sensible but profitable for them to do it the way it is being done.

On the basis of a cursory examination, it occurs to us that there may be instances where savings could be effected by the railroads in the transportation of these commodities, and when these occasions do present themselves we say that they ought to be employed.

Mr. BYRNE: When the officials of the C.N.R. were here and were discussing the question of railway rationalization, it was said that they believed that there

should be larger terminal elevators rather than the country elevators at each small point. I believe they indicated that 50 miles would be a fair apportionment of distance for such terminals. What do you think of this suggestion. What is a reasonable distance for a farmer to carry his grain by his own truck, or whatever truck is at hand?

Mr. GIBBINGS: I can quite understand the railroad's position in this regard. From their point of view the ultimate would be to have the facility sufficiently large that they could load a complete train at one spot. We are in a different position. We sit as representatives of producers.

A few years ago there was a study made by an engineering firm, which pointed out the desirability from their point of view, of having, I believe, 70 shipping points in Saskatchewan. They proposed elevators of a million bushels capacity, and contemplated a three times turnover which would be 3 million bushels per elevator per year. They made some calculations which indicated that there would be a saving in the handling of grain of three cents a bushel if that happened. No farm would be farther than 25 miles radius from each of these points. This seemed, from their point of view, to be a sensible kind of proposition. However, since grain does not move as the "as the crow flies" some farmers, for geographic and other reasons, would be much more than 25 miles from the elevators.

The Board of Transport Commissioners has calculated—and has been prepared to accept, in hearings with which we have been associated, a cost to the producer of one-half cent a bushel a mile to haul grain. This might be excessive. Let us suppose instead that it was one quarter a cent a bushel per mile—half of that—and the farmer had to haul it 40 miles—this would be 10 cents a bushel that it would cost him. Well, the farmer does not have to have a Ph.D in economics to know that it is not favourable to him to be charged with a cost of an additional 10 cents per mile on all grain to an elevator in order to save three cents on arrival.

Our view, therefore, is that you have to take a balance of costs here. We believe that we all have to contribute to an improvement in the efficiency of handling grain. However, we do not believe that the burden of that cost should be excessively placed on the shoulders of the producer.

Mr. BYRNE: So that a balance between the original suggestion, and what the Canadian National is suggesting is more in line with your thinking?

Mr. GIBBINGS: I have not seen the evidence, nor was I here, but I would suspect that they may go further in that direction than would be desirable, or profitable, from the point of view of the producer, on the question of balance of costs.

Mr. BYRNE: If there were no statutory rates in effect do you think there would be more desire on the part of the producers to enter into such a question?

Mr. GIBBINGS: Well, it would alter the balance of costs in that instance, and the pattern might be different.

● (12.30 p.m.)

The CHAIRMAN: Who authorized this engineering study?

Mr. PARKER: They did it on their own. It was by Barnett and McQueen, Fort William.

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TRANSPORT AND COMMUNICATIONS

October 18, 1966

The CHAIRMAN: I thought that someone might want to obtain a copy of it for the record.

What was the name?

Mr. PARKER: Barnett and McQueen. They made it about 1961 or 1962.

Mr. PHILLIPS: I think Mr. Gibbings has been rather liberal in identifying it. This was a private exercise undertaken by an engineering firm which was seeking a client. I doubt if it is available for anyone else but a potential client; and it is now out-of-date.

The CHAIRMAN: Did the Canadian Co-operative Wheat Producers purchase?

Mr. PHILLIPS: We did not, no.

Mr. STAFFORD: I have just one line of questioning. Would you be the largest customer of the railways in the west?

Mr. GIBBINGS: I do not really know whether we are or not. I think that we are one of the larger ones.

Mr. STAFFORD: Just off hand, could you think of many more that might be larger?

Mr. GIBBINGS: I cannot think of any that would be larger, but there may be some.

Mr. HARROLD: It might help Mr. Stafford, in this context, to tell him that in a sample waybill analysis done by the Board of Transport Commissioners in 1964, the percentage of total commodities by weight moving out of Saskatchewan under the statutory rates was about 76 per cent. Everything else was less than one-quarter.

Mr. STAFFORD: With that amount of business I would suppose that the railway would be very pleased to bargain with you at any time and not prejudice its position.

Mr. GIBBINGS: I have not noticed on their part, any reluctance to bargain. I have noted that we have not been particularly successful in our efforts.

The CHAIRMAN: I would like to thank the witnesses, Mr. Gibbings, Mr. Harrold, Mr. Parker and Mr. Phillips, for their very frank and efficient presentation of their brief here today. Thank you very much, gentlemen, and we hope that the bill will meet with your approval once it passes this Committee.

We will meet at 3.30 tomorrow afternoon to hear the presentation of the Canadian Manufacturers' Association, which is very short. We hope for a quorum at 3.30, or soon thereafter.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

STANDING COMMITTEE

ON

TRANSPORT AND COMMUNICATIONS

Chairman: Mr. JOSEPH MACALUSO

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 27

WEDNESDAY, OCTOBER 19, 1966

Respecting

BILL C-231

An Act to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and to enact other consequential provisions.

WITNESSES:

From Canadian Manufacturers Association: Mr. W. J. Rae, Chairman, C.M.A. Transportation Committee; Mr. J. Mitchell, Member, C.M.A. Transportation Committee; Mr. J. McAllister, Member, C.M.A. Transportation Committee; Mr. R. E. Barron, Manager, C.M.A., Transportation Committee.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE
ON
TRANSPORT AND COMMUNICATIONS

Chairman: Mr. Joseph Macaluso
and Messrs.

Andras,
Allmand,
Ballard,
Bell (*Saint
John-Albert*),
Boulanger,
Byrne,
Cantelon,
Chatwood,

Deachman,
Éthier,
Fawcett,
Horner (*Acadia*),
Howe
(*Wellington-Huron*),
Langlois
(*Chicoutimi*),
Legault,

MacEwan,
McWilliam,
Olson,
Pascoe,
Rock,
Schreyer,
Sherman,
Southam,
Stafford—25.

(Quorum 13)

R. V. Virr,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

WEDNESDAY, October 19, 1966.

(46)

The Standing Committee on Transport and Communications met this day at 3.40 p.m., the Chairman, Mr. Macaluso, presiding.

Members present: Messrs. Andras, Bell (*Saint John-Albert*), Byrne, Canelon, Chatwood, Deachman, Éthier, Fawcett, Horner (*Acadia*), Howe (*Wellington-Huron*), Langlois (*Chicoutimi*), Legault, Macaluso, McWilliam, Olson, Pascoe, Rock, Schreyer, Stafford (19).

Also present: Mr. Jamieson, M.P.

In attendance: From *Canadian Manufacturer's Association*: Mr. W. J. Rae, Chairman, CMA Transportation Committee, Mr. J. Mitchell, Member CMA Transportation Committee, Mr. J. McAllister, Member, CMA Transport Committee and Mr. R. E. Barron, Manager, CMA Transportation Committee.

The Chairman introduced the representatives of the Canadian Manufacturers Association.

Mr. Rae, the Chairman of the CMA Transportation Committee, presented their brief orally.

The witnesses were questioned.

At 5.50 p.m., there being no further questions of the witnesses, the meeting adjourned until 9.30 a.m., Thursday, October 20, 1966.

R. V. Virr,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

WEDNESDAY, October 19, 1966.

The CHAIRMAN: Gentlemen, we have a quorum.

The witnesses before us today are here on behalf of the Canadian Manufacturers' Association. To my immediate right is Mr. W. J. Rae, chairman of the Canadian Manufacturers' Association, transportation committee; to his right Mr. J. Mitchell, a member of the C.M.A. transportation committee; Mr. J. McAllister, a member of the C.M.A. transportation committee and Mr. R. E. Barron, manager of the C.M.A. transportation committee. Mr. Rae, would you proceed.

Mr. W. J. RAE (*Chairman, Canadian Manufacturers' Association, transportation committee*): If it is agreeable to the Committee, our brief is very short and I think we should read it to you. We would then be prepared to answer any questions you may wish to put.

The Canadian Manufacturers' Association welcomes this opportunity of appearing before your Committee to express its views upon the contents of Bill no. C-231.

The Association is a non-profit, non-political organization of manufacturers, first joined together in 1871 to take concerted action on their common problems. The association's membership of over 6,300 is located in over 600 cities, towns and villages from coast to coast and produces about 75 per cent of Canada's total manufacturing output. More than three-quarters of the Association's member firms employ less than 100 persons.

I think one thing we could add here is that while we provide about one-third of the tonnage in this country by various means, we pay about one-half the freight bill.

Emphasis on the pervasive effects of competition on Canada's transport, particularly upon the railways, was a feature of the Report of the Royal Commission on Transportation. Certain provisions of Bill no. C-231 are designed to relieve the railway from burdens imposed by law and public policy during the days of railway monopoly. Other provisions in the bill inaugurate a national transportation policy dedicated to the regulation of all modes of transport in a manner compatible with and supporting competition, the assessment of a fair proportion of cost for benefits provided at public expense and the compensation to carriers for providing services imposed as a public duty. In order to administer and promote this policy the bill would create a national transport commission with authority over all modes coming under federal authority. Research would be a responsibility of the new commission.

The Canadian Manufacturers' Association supports the general principles and objectives set forth in this bill, including the creation of the Canadian Transport Commission.

While the Association finds the policies enunciated in the bill to be apparently sound and laudable, it is mindful that planned courses of action sometimes appear valid in theory but prove impracticable when the time for action comes. With this reservation we recommend that the proposals be given a fair trial. The views and suggestions submitted in the following paragraphs relate to particular aspects of the subject matter and do not detract from the fundamentals of the bill.

2. National Transportation Policy (Clause 1)

In subsection (a) of clause 1 provision is made for free competition among modes of transport, but no reference is made to competition among carriers within the same mode. The association recommends the following amended wording of subsection (a) in order that competition may be pervasive:

“(a) regulation of all modes of transport with due regard to the national interest will not be of such a nature as to restrict the ability of any mode of transport to compete freely with any other mode of transport nor any carrier to compete freely with any other carrier.”

3. Interpretation (Clauses 3)

Subsection (d) states that a “motor vehicle undertaking” means a work or undertaking for the transport of passengers or goods by motor vehicle.

This definition would encompass private carriage which is by tradition free from government regulation in so far as the right to traverse the highway within a respective jurisdiction without restraint is concerned, subject to fees for registration plates. The Canadian Manufacturers' Association strongly favours the retention of this unrestrained right of a person to carry his own goods and therefore recommends that (d) be revised to read:

“(d) ‘motor vehicle undertaking’ means a work or undertaking for the transport of passengers or goods by motor vehicle for hire or reward.”

4. Prohibited Interests (Clause 8)

Subsection 1 of this clause prohibits any member or officer of the commission from having any direct or indirect interest in a carrier's undertaking, from engaging in the supply of or having any interest in a device or patent involved with a carrier's equipment. Subsection 2 requires any member or officer to divest himself of any such interest within three months in the event of his benefitting by will or succession.

The association subscribes to the provision of this clause as a safeguard against preference being exercised by the commission or in a carrier's favour. However, it is conceivable that strict impartiality might be impaired by a converse situation where the vested interest of a member or officer of the commission happened to be in an enterprise other than a carrier or other than an enterprise related to a carrier. In our opinion a further provision should be added to ensure the commission's freedom from exposure to a conflict of interest

due to any business connection, whether such be with a carrier, carrier relation or with some other concern that may fall into the category of a shipper.

5. *Application of Part III, Extra-Provincial Motor Vehicle Transport (Clause 30)*

The application of part III of this act to extra-provincial motor vehicle transport is to be held in abeyance unless such transport is exempted from the provisions of the Motor Vehicle Transport Act by the governor in Council. The Canadian Manufacturers' Association does not believe that the lack of uniformity in administration and regulation created by the division of authority over highway carriage among the various provinces, under the Motor Vehicle Transport Act, satisfies the best interests of carriers or shippers. In order that the nation's transport be co-ordinated for optimum efficiency in accord with the national transportation policy expressed in clause 1, the association suggests that a specific date be set for the enactment of part III and recommends such date be not later than two years from the coming into force of this act.

6. *Appearance of other interests before commission (Clause 39, Sec. 45A)*

This new section has been added to allow for representatives or agents of provincial or municipal governments or of associations representing shippers to appear and be heard by the transportation authority.

In the association's view this provision should be an inalienable right of the aforementioned parties and should be mandatory and not be at the discretion of the commission. Therefore, it is recommended that the word "shall" be substituted for "may" in line 4 of Section 45A, thus reading:

"... the commission shall, notwithstanding any other provision of this act or the National Transportation Act, permit the representative or agent of any provincial or municipal government or any association or other body representing the interests of shippers or consignees in Canada to appear and be heard before the Commission subject to such rules of procedure as the Commission with the approval of the Governor in Council may prescribe."

7. *Exclusion of Commuter Services (Clause 42, section 314 (I) (9))*

Under subsection (9) passenger trains in commuter services are excluded from section 314 (I) which provides for the discontinuance of passenger train services. Furthermore, under section 314 (J) (c) an "uneconomic service" means a passenger train service that has been determined to be uneconomic under section 314 (I).

The tenor of these subsections appears to bar the railways from any relief from unprofitable commuter passenger operations and to contravene a fundamental principle of this act as set forth under clause 1, subsection (c). We submit that commuter passenger services should be treated in the same way as other passenger services and where a carrier is compelled to continue an unprofitable commuter operation in the public interest it should be similarly reimbursed for losses.

8. *Special appeal and investigation (Clause 44, section 317 (1))*

The uncertainty of a shipper having a remedy when confronted with an individual wrong appears as a distinct and disturbing inadequacy in this section.

A person seeking to appeal an act or omission of a railway would, under the section as now written, be barred from such appeal unless and until he had established a prima facie case that the public interest had been affected prejudicially. It is submitted that an individual, a company or industry could face insuperable difficulties in attempting to prove that public interest had been wronged, despite gross unfairness by a carrier in its treatment of one shipper compared to its treatment of another.

The association respectfully submits that a revision of this section in accordance with the following would afford persons and industries an essential right and equity which we find to be missing from the current wording:

"317. (1) Any person, if he has reason to believe that any act or omission of one or more railway companies, or that the result of the making of rates pursuant to this Act after the commencement thereof, may prejudicially affect the public interest, or create an unfair disadvantage to a locality, shipper or shippers, in respect of tolls or conditions of carriage of traffic, may apply to the Commission for leave to appeal the act, omission or result and the Commission, if it is satisfied that a prima facie case has been made, shall grant leave to appeal and shall make such investigation of the act, omission or result as in its opinion may be warranted."

Relevant changes would have to follow in subsections 2 and 3.

Mr. Barron, would you like to continue reading this.

Mr. R. E. BARRON (*Manager, Canadian Manufacturers' Association, transportation committee*):

9. Similar facilities for all (Clause 45, section 319 (9))

With the exception of what it considers to be omissions, The Canadian Manufacturers' Association agrees with the intent of this new subsection which would require railways to afford trucking companies who carry for hire or reward similar facilities at the same rates and on the same terms and conditions as those extended to the railways' own trucking arms.

Our principal concern is the omission of shipper-owned motor vehicles, trailers or demountable containers. The shipper who owns or decides to purchase such equipment for the carriage of his own commodities should be entitled to the same facilities under the same rates and conditions as those which this section extends to the trucking companies. When the for-hire trucker uses rail piggyback facilities he does so for the purposes of reducing his costs and this opportunity should be equally available to the private carrier. The importance of private carriage as a generally established and accepted method for conveying Canada's production to market cannot, in our view, be ignored and, in order that private carriage be given equitable treatment, the association suggests this subsection be amended to the following:

"Section 319 (9) If a railway company provides facilities for the transportation by rail of motor vehicles, trailers or demountable containers operated by any company under its control for the conveyance of goods for hire or reward, the railway company shall offer to all companies operating motor vehicles, trailers or demountable containers for the conveyance of goods for hire or reward or for private use, similar

facilities at the same rates and on the same terms and conditions as those applicable to the motor vehicles or trailers operated by the company under its control; and the Commission may disallow any rate or tariff not in compliance with this subsection and direct the company to substitute therefor a rate or tariff that complies with this subsection."

10. Tariff advancing tolls (Clause 52, section 333 (2))

We disagree with the reduction of the period of notice from 30 days to 10 days when tariffs are published introducing an increase in rates. Ten days is an inadequate time for the purposes of revising and distributing price sheets and notices to customers and for the shipper to consider an alternative method of transport. The association urges the retention of the present length of notice, namely 30 days when tolls are to be raised.

Tariff reducing tolls (Clause 52, section 333 (3))

As this subsection is written a carrier might issue a reduced rate adversely affecting a third party which would not be known because the tariff need not be filed with the commission at any fixed date. It is suggested that the subsection be amended to read:

"(3) A freight tariff that reduces any toll previously authorized to be charged under this Act may be acted upon and put into operation immediately on or after the issue of the tariff and *not more than ten days before* it is filed with the commission."

11. Inquiry into rate (Clause 53, section 334 (5))

As we construe the language of subsection (5) a complainant would have difficulty in determining whether he could establish prima facie evidence to enable him to qualify for an investigation by the commission. To overcome this impediment we suggest an additional clause that would give effect to the following:

"In order to establish a prima facie case under this section it shall be sufficient for the complainant to show that the rate complained of is significantly lower than another rate on a material of comparable transportation characteristics."

12. Application to set fixed rate (clause 53, section 336)

This clause introduces a provision designed to protect a shipper, whose traffic is adjudged captive to the railway, against excessive rates for rail service.

Upon application by such a shipper, the commission may, after investigation, fix a rate amounting to the variable cost of carriage based on carloads of 15 tons in standard railway equipment for the goods carried, plus a mark-up of 15 per cent of such variable cost.

After notification by the commission of a rate so fixed, the shipper may enter into a contract with the railway to ship the goods concerned by rail for not less than one year at the rate fixed. Recognition, in a tangible form, is extended to the shipper of carloads weighing 25 tons or more by deductions from the 15 ton fixed rate of an amount equal to one-half the savings realized by the reduction in variable costs brought about by the heavier weights. Such

savings are to apply and be computed in units of 10 tons over that for the basic 15 ton fixed rate. A further provision allows the shipper to negotiate with the railway for a rate lower than that fixed by the commission.

As we have said on a previous occasion, this innovation in rate regulation has no parallel to our knowledge. We are convinced that no mathematical formula will adequately fit all of the many variations in types of captive shipments. The particular formula proposed in Bill C-231 is susceptible to many criticisms.

We will refer to and illustrate some of the main defects. Firstly, a very large volume of captive traffic is represented by heavy loading bulk materials, some of which are loaded in carloads of more than 70 tons. For several reasons, an arbitrary calculation based on 15-ton cars is completely useless as a base for calculating costs of moving traffic of this nature. Perhaps the easiest error to explain is represented by the fact that, for example, the bill No. C-231 formula would require the commissioners to calculate variable costs of such traffic using five times as many cars as would actually be used in the movement. This would not multiply variable costs by five, but the variable cost so calculated would certainly be a multiple of the true variable cost based on the actual shipping conditions. We give examples later.

Another principal error in the formula is the requirement that a loading of 150 per cent be added to the variable cost in order to arrive at the basic fixed rate. This might be appropriate in isolated cases, particularly high value commodities. But bulk shipments of relatively low value commodities could not possibly support such a drastic loading factor.

Perhaps the best recognized proof of this is in the recommendations of the royal commission itself with respect to export grain rates. They require, as a standard to be used for loading over and above variable costs, amounts which represent about 24 per cent of variable costs in the case of the Canadian Pacific Railway Company and about 22 per cent in the case of the Canadian National Railways. Grain rates are, of course, a special case, but at least we are entitled to take it that the royal commission believed that the railways would be adequately reimbursed in the case of this particular captive traffic by the payment over and above variable costs of about one-sixth of what is prescribed in bill No. C-231.

A third defect in the formula lies in the method of adjusting the fixed rate for carload minimums in excess of 15 tons. Using the proposed method, the entire loading of 150 per cent of variable cost at the 15 ton carload rate is retained in the final fixed rate. The only discount for heavier loading is 50 per cent of the savings in variable cost which result from heavier carloading. When the 15 ton rate has been calculated on a fiction that inflates the number of cars five-fold a severe penalty is imposed on the shipper.

The following are examples of the compounding of these erroneous factors, that is, the 15 ton carload base, the 150 per cent loading on variable costs, and the inadequate adjustment for heavy loads. Using accepted railway costing procedures, estimates have been made of the application of the bill No. C-231 fixed rate formula to three well established published freight rates for iron ore. Here are the results:

- (1) A shipper whose established rate is \$2.68 per net ton would be offered the protection of a maximum rate of \$14.64 per net ton.

- (2) A shipper whose established rate is \$3.70 per net ton would be offered the protection of a maximum rate of \$23.49 per net ton.
- (3) A shipper whose established rate is \$1.46 per net ton would be offered the protection of a maximum rate of \$7.32 per net ton.

Obviously, the necessity to calculate on five times too many cars, compounded by the excessive loading of 150 per cent, makes the theoretical protection of such rates absolutely meaningless in these particular cases. Undoubtedly the same would be true in greater or lesser degree of a vast volume of bulk commodity captive traffic.

In conclusion, we fully agree that the captive shipper should have the right to apply to the commission to fix a rate but we believe that the purpose of this right would be frustrated in almost every case were the commission to be directed by legislation into an arbitrary and inequitable calculation of the rate.

We submit that the free judgment of the commission, relying on its own fact-finding facilities, is the proper authority to analyze the case and fix a rate. We further submit that the final test of whether a shipper is captive, and therefore eligible to apply for a rate, is whether he is willing to enter into a contract with the railways for 100 per cent of the affected traffic.

The association, therefore, urges replacement of the proposed section 336 by an amended section expressing in essence the following:

"A shipper who is prepared to enter into a written undertaking with a rail carrier to ship all shipments of his designated goods by rail for a period of not less than one year, may, if dissatisfied with the rate applicable to the carriage of such goods after negotiation with a rail carrier for an adjustment of the rate, apply to the Commission to fix an appropriate compensatory rate for the carriage of such goods.

"Where a fixed rate is made under this section the company shall file and publish a tariff of the fixed rate to become effective upon such date as the commission may, by order or regulation, direct."

Respectfully submitted,

THE CANADIAN MANUFACTURERS' ASSOCIATION

Mr. RAE: I thought before questioning began I would say a few words. As briefs of this type go it is rather a short brief but, of course, we were the victims of circumstance in timing as I presume was the case with the Committee. We, therefore, have concentrated on the areas that are of particular interest to manufacturers as payers of freight and users of transportation. We have read the entire act very carefully and had we more time to develop it we would have made comments of varying degrees of importance on a number of parts. We are, in fact, quite prepared to discuss to the limit of our ability any portion of the act that anyone cares to put to us but we would like to stay, as much as we can, within those areas on which manufacturers might be considered to have an interest and to have some opinions and viewpoints. In fact, you might want to use us in a particular way. This group represents a number of people whose prime characteristic is that we have long years of experience as buyers of transportation services. We are great technicians but we also are

professional buyers of transportation. You might wish to try almost anything you have in mind on us and we will try, to the best of our ability, to show you the shippers' point of view. Whatever else you may say for the act, as it is presently framed, there was a little less time spent on the problems of the shipper and the payer of freight than on other very important aspects of transportation to this country. We feel, as you said, there are a few points to be clarified. For all that, we are quite prepared as an organization to try this whole system of very, very reduced control—which in essence is what it really is—on rates to see how it comes out. We do not want to come back five years from now and say it did not work. We are willing to try it. We have noticed in the press a few references to previous evidence given before this Committee, and if certain points do not come out in the discussion we might like to take a moment or so to make comments on the evidence as we go along.

The CHAIRMAN: I think you should confine yourself to your own brief.

Mr. RAE: All right. Thank you, Mr. Chairman. I think that is all.

Mr. OLSON: I would like to thank you for this brief. I think it stands very high, at least in my opinion, as one which shows you have read and very carefully considered what you were going to suggest as a substitute for those portions of the present bill to which you object, and I think your attitude and action is commendable in this regard. While I would like to discuss many matters in this brief, I am going to confine myself to two sections; section 317 and section 336.

On page 4, in dealing with clause 44, section 317, you object to the method by which someone may appeal a rate under the old section 317 which is repealed and that it is unjust discrimination that someone else shipping a like commodity is getting a different rate. Now, suppose the Committee does not accept your substitution. Quite frankly, I like the substitution which you have advanced but, in the event that is not done and the present section of the bill remains, can you give me any indications of how a shipper would go about claiming this discrimination and proving that public interest was suffering as a result of the rate been charged to him?

Mr. RAE: I must admit that that crystallizes our problem. We do not know what we would have to say to make a case on public interest. Public interest is a very broad term. About all we know about it in the legal sense—and I have spoken to one or two lawyers very briefly on this—was that it had a tendency to be something on a very broad scale. Let us put it this way: any single shipper who feels that he was harmed, and let us say that he has a rate that he thinks is about 10 cents a hundred too high, we have great difficulty in understanding what he could do to make anybody say it is necessarily in the public interest to have this thing fixed. Now, if a whole geographic area were involved I do not think there would be a major problem. I think people would recognize this. This is a public interest situation. But we are very much afraid that small groups of people, with what they think is a grievance, might not really be able to make a case which would be accepted as public interest, because we do not know any definition of it which fits automatically into this area.

Mr. OLSON: That is the reason I asked you, because I presumed from your comments that you had very carefully considered how someone would go about proving that he had unfairly discriminated against in the negotiation of rates, if

I may put it that way. I was wondering if you had tried to determine for your own satisfaction how you were going to prove this.

Mr. RAE: We had some very interesting chit chats around tables in trying to formulate approaches which would convince other people that it would certainly be accepted as public interest, and we failed.

Mr. OLSON: You failed?

Mr. RAE: Yes. That is why we say we would like this crystallized a bit.

Mr. OLSON: There is more there, but I would like to turn to page 6, if I may, to Clause 53, or your paragraph 12. It reads as follows:

As we have said on a previous occasion, this innovation in rate regulations has no parallel to our knowledge.

When did you say that on a previous occasion?

Mr. RAE: When we were attending a hearing in this room on Bill No. C-120. That is what we were referring to.

Mr. OLSON: I take it from your general comments that you regard this maximum rate formula based on a fictitious car load rating of 30,000 pounds, and so on, as completely unrealistic and unworkable. I think you used the words "fiction" and "completely useless" and so on, a number of times. What I want to get at right now is the matter of this rate, where you say you have done some calculation in trying to use this formula.

Mr. RAE: Now, Mr. McAllister has done quite a bit of work on this and has a fair amount of information about it. I think I will ask Mr. McAllister if he would like to deal with it.

Mr. OLSON: That is fine. Now, I want to pose this question: at the bottom of page 7 you say: "Using accepted railway costing procedures, estimates have been made of the application of the bill No. C-231 fixed rate formula to three well established published freight rates for iron ore." Am I to assume that these rates of \$2.68 in paragraph (1), \$3.70 in paragraph (2) and \$1.46 in paragraph (3) are rates which are now being charged by the railways for the movement of iron ore?

Mr. RAE: Yes. Mr. McAllister has a more detailed statement on this but I think I can answer your question regarding the \$2.68, the \$3.70 and the \$1.46. They were the rates at the time of calculation which were actually in effect on movements of goods.

Mr. OLSON: All right, that is fine. This brings me to my second question. You say: "Using accepted railway costing procedures." I have to presume from this that in some way you had the so-called variable cost which applied to these. Where did you get it?

Mr. RAE: I am glad you asked that question because as we were reading this I realized it was wide open. This is based essentially on information which the United States Interstate Commerce Commission put out, which gives you a sort of "barn door" approach to it. This would not represent what would happen if this became law in Canada. Those rates would not necessarily be the ones.

Mr. OLSON: These variable costs which you received from the Interstate Commerce Commission?

Mr. RAE: Yes.

Mr. OLSON: Are these the variable costs that were accepted by the Interstate Commerce Commission for moving this kind of a commodity?

Mr. RAE: Yes, they are the figures they used in making general assessments.

Mr. OLSON: I see.

Mr. RAE: I would not want to go into them in great detail as they do, but they are sets of tables which are available, which can be picked up and which can be used. That is where some of the tables we used come from. But these were produced by a former CNR expert who worked from information which he had and he translated it into the Canadian situation.

Mr. OLSON: Well, that was actually the next question I was going to ask you. There has been a calculation made to apply this to Canadian conditions as closely as possible?

Mr. RAE: Yes, but they are not the ones which would necessarily result from this act being passed and this being applied because nobody knows the precise type that would be used.

Mr. OLSON: Are you satisfied that the variable costs which have been accepted by the Interstate Commerce Commission are similar to the variable costs which have been accepted by the Canadian Board of Transport Commissioners to date?

Mr. RAE: I do not think I would want to make any statement on that in that form. I do not know if they are similar. There is probably some kind of a relationship. In fact, I do not think I know what figures the present Board of Transport Commissioners did use in this particular situation.

Mr. OLSON: I see. But these are the maximum figures which would come out of applying the formula which is now in section 336 in so far as you can calculate?

Mr. RAE: No, they are typical "barn door" type of figures. What they do demonstrate is that the figure will be very much larger than the present rate.

Mr. OLSON: Now, Mr. Rae, the first paragraph on page 8 reads as follows:

Undoubtedly the same would be true in greater or lesser degree of a vast volume of bulk commodity captive traffic.

I would like to have you expand the definition of what you regard as "captive traffic."

Mr. RAE: Would you mind if I tried to sketch this in very quickly? We have Mr. McAllister primed on the mathematical approach to this thing. The answer has to be—and I think, in fact, we said it—that we do not believe anybody can define what a captive shipper is. We have suggested the only definition which we think makes any sense. If some shipper, after studying all these various possibilities, is prepared to come forward and say: "I am prepared to put myself at the mercy of the commission to have a rate set rather than bargain for it myself", I think that is probably a good definition of a captive shipper.

Mr. OLSON: I understand that, but in the present clause 336, where it says a shipper must be unable to have available to him an alternative, effective or economic method of shipping, can you foresee any way that a shipper can prove all of these things?

Mr. RAE: We tried that exactly the same way we tried the other case we were talking about, and we sat around trying to define it and we had to say, "We cannot do it, we do not know how to define a captive shipper in those terms."

Mr. OLSON: This is my last question, although I have many more. You said that your association would be willing to assist the Committee in any way possible or do a little research amongst your own members to find out who regards themselves as captive, that is an economic captive of the railway in so far as shipping their raw material or finished product is concerned. I wonder if you would be willing to undertake to give us, not necessarily the names of the companies, but the kind of traffic, and the kind of commodities and goods that would be shipped between certain points so we could have some idea of the fairly large number of people who regard their kind of shipping as being captive to the railways.

Mr. RAE: We would be happy to make such an investigation. In preparing this brief we tried very hard to carry on such an investigation, but at this moment our committee would have to say that we cannot point our finger at anyone or any piece of traffic which, at the present time, the shipper would say is captive traffic.

Mr. OLSON: I do not quite follow you. Do some of your members regard themselves as being unable to ship economically by any other means?

Mr. RAE: No member at the present time has said to us, "We regard ourselves as captive shippers." I do believe such a creature exists; I think there are such things as captive shippers.

The CHAIRMAN: Can you give examples of them, Mr. Rae?

Mr. RAE: No, I cannot, because I am just speaking from years of experience. Well, perhaps I could. Let us try this one.

There could be a shipper who, in fact, has two plants that he moves goods between. He may be located near water and have docks within 500 feet of his plant, he may have a highway running in front of his plant with 10 or 15 different truck companies on it, and he may have rail service. He could have all kinds of characteristic movements and, in fact, the next possible alternative in order of ascending costs would be such that his costs would go up 50 or 60 per cent if he moved from the preferred carrier to the next one. Do you follow me?

Mr. OLSON: Yes, I do.

Mr. RAE: This 50 or 60 per cent could be an awful lot of money and, in fact, as a practical matter, he might be captive.

Mr. OLSON: Thank you very much, Mr. Rae. I have to pass now because of time.

Mr. HORNER (*Acadia*): I was interested in this captive shipper and, referring to page 4, I agree with Mr. Olson that the money is in the public interest.

Just as you ended your remarks to Mr. Olson, you said that in a practical sense a shipper may be captive and only move 50 to 60 per cent.

Mr. RAE: No. Assume that he has a rate less than the railway, although he is within the railway area, and he has a rail rate between these two points of \$1. The best truck rate he can get is \$1.75. If he had a tremendous amount of traffic he could get a boat rate of 60 cents. However, he is only moving two or three cars a week—this is a fair amount of traffic, but not enough to ship by boat because he does not have the volume—so he uses the trucks and it is 75 cents a hundred too much. He says, "To all practical intents and purposes I cannot pay that 75 cents." Therefore, in essence, he is a captive shipper in that particular instance. That is the only way I can identify the concept.

We talked it over and we do not see any other way that could be guaranteed. You cannot stand on the outside and identify these people; they identify themselves. Does that answer your question?

Mr. HORNER (*Acadia*): That clears up any misunderstanding I may have had.

Is the Canadian Manufacturers' Association national in scope? Is it all across Canada?

Mr. RAE: Oh, yes, absolutely.

Mr. HORNER (*Acadia*): With a heavy concentration in the St. Lawrence?

Mr. RAE: We have a heavy concentration there because that is where industry is, but our membership, which we could enter as an exhibit here very easily, is quite widespread.

Mr. HORNER (*Acadia*): To get back to the captive shipper, you say on page 6.

We are convinced that no mathematical formula will adequately fit all of the many variations in types of captive shipments. . .

Here you say there are many variations in types of captive shippers and yet at the end of your brief you state you firmly believe that a captive shipper must be one who is captive for 100 per cent of his goods. What do you mean by that?

Mr. RAE: Just a moment. We say that you identify, because he is someone who will come forward and say, "I will ask the board to set a rate at 100 per cent of whatever traffic we are talking about." That tells us that he is really captive because buyers of transportation, as a group, are very much inclined to bargain to get what they can get. When the day comes when they walk into the commission and say, "Sir, will you set a rate for us?", you can be pretty sure they are captive. This is really what we mean. We speak for a group of men who have been doing this for a good many years.

Mr. HORNER (*Acadia*): What do you mean when you speak on page 6 of the many variations in types of captive shipments? Could you give the Committee some idea of the variations in types of captive shipments you envisage?

Mr. RAE: I have already given you one example and these are all hypothetical: you cannot walk up and say, "Here is a captive shipper."

The CHAIRMAN: There is no person you know now of who is a captive shipper under the terms of this act or any other definition?

Mr. RAE: Well, on this definition or any other—

Mr. HORNER (*Acadia*): You did suggest, though, that there well may be.—

Mr. RAE: A hypothetical one.

Mr. HORNER (*Acadia*): Were you using the word “ship” or “shipper”?

Mr. RAE: I used the word shipper.

Mr. HORNER (*Acadia*): All right.

The CHAIRMAN: Mr. Horner, the question referred to captive “Shipper”, not to “shipments”; there are two different meanings. You used “shipments”.

Mr. RAE: That was a slip, no wonder I confused you.

Mr. HORNER (*Acadia*): To me there is not a big difference. I think I read it as captive “shipments” and then I might have referred to it as captive “shipper”.

Mr. RAE: I managed to confuse you there.

Mr. HORNER (*Acadia*): I am looking, quite frankly, for some form of protection in this bill for people now on what might be called non-competitive rates. You people in the manufacturing industry moved, I think, about 60 per cent of your goods from eastern Canada to western Canada on non-competitive rates.

I am re-calling that figure from memory but I think I am fairly accurate. It sounds right. Now, what is the difference between a captive shipment and the non-competitive rates as they now apply?

Mr. RAE: Well, non-competitive rates are simply rates which the railways have set as being the rates which they thought should apply on shipments of a certain character. By definition, they are not ones which were set specifically to compete with some other carrier or some other competitive factor. If I knew where that question was leading I think I could answer it a lot better. This is one of our problems. This is particularly true when we have a background of technical terms and I know you do not, except in narrow areas. People use it this way sometimes and it confuses us both.

Mr. HORNER (*Acadia*): There is nothing devious about me. I would not want to lead you anywhere. I am trying to find out whether or not the 50 per cent of goods, other than grain, that move out of the west into other parts of Canada, and which move on non-competitive rates, will have any protection under the captive shipper clause, which is clause 336.

Mr. RAE: My answer is that I would not know, but probably not.

Mr. HORNER (*Acadia*): Probably not.

Mr. RAE: Probably not, but you would have to take a specific item and look at it. I really would not know but I think the chances are that most of them would not.

Mr. HORNER (*Acadia*): I will pass. I have no further questions.

Mr. BELL (*Saint John-Albert*): I am afraid to get into this captive shipper business. Mr. Chairman, I would like to refer to clause 317, which Mr. Olson mentioned. This is one of the appeal sections and I am sure it is very important to the Canadian Manufacturers' Association. I notice in the brief, and Mr. Olson mentioned this, that you are worried about the burden that would be placed on the person appealing in so far as establishing a *prima facie* case is concerned.

Certainly I think the C.P.R. are contending that they have no objection to this matter of appealing in the public interest, but they feel it should be restricted to persons who have a particular interest. I think they recommend that it be "any interested person" instead of just "any person". Now, would you object to this?

Mr. J. MITCHELL (*Member, Canadian Manufacturers' Association transportation committee*): I do not think they would. They would presume that a *prima facie* case might have to be made which stems from a direct interest. I am not sure, but I think if you did not have this that the time of the Commission might well be taken up with frivolous appeals on theoretical grounds, or something of that kind. We would presume that this would be the case. This is at least what we, as manufacturing shippers, are concerned about. However on the matter of public interest, and depending on how this was defined, this might expose the commission to approaches by people indirectly who are using the public interest in an academic sense.

Mr. BELL (*Saint John-Albert*): In other words, you might not object to the narrowing down of the groups of persons that would be involved in the field, but certainly you do make the case very strongly that the burden of establishing a *prima facie* case should not be as great on those who do handle shipments.

I have two brief questions. On page 2 of your brief you speak about this matter of prohibited interests and you suggest that there should be protection against conflict of interests amongst those who may be appointed to the commission. Do you have any fear whatsoever that those who may be appointed to the commission would continue to favour a particular mode of transport?

Mr. RAE: They are all human beings and I am sure that everybody retains that attitude to some degree. Our experience and our indication is that in public life men do dissociate themselves from their previous interests to a great degree.

Mr. BELL (*Saint John-Albert*): And if some sensible laymen were also appointed this would balance it?

Mr. RAE: Yes. We did not feel that this was really a tough problem, but here you have a case where an act is indicating that you must be careful about this, and this, and this. He could be chairman of the board of du Pont if he wanted to be. We do not tell him that would not be right.

Mr. BELL (*Saint John-Albert*): There is a reference on page 2 to clause 1 to the effect that there is only now in the act a reference to free competition among modes of transport. You suggest it should also include competition between other carriers within that particular mode of transport. Do you have any reason to suggest why this was not put in the act? Is it assumed that there would be competition? This seems to be quite basic.

Mr. RAE: We actually do not know. We do not know whether it was a deliberate attempt to focus all competition between modes or whether it was just an assumption that if you had it between modes you also had it between the internal parts of it.

We do not know what the reason is and we do not know how a board to be set up would interpret it. We want it clear from the start that competition within the mode should not be permitted, because in some parts of the world

the approach seems to be that you make the modes complete but not within the modes. That is the little we know about it, which is not very much. It was certainly left out, and we felt it would be much safer to have it in and then we would all know what we are trying to do.

Mr. BELL (*Saint John-Albert*): In other words, the protection of putting it in at least would allay your fears, but you do not know of any bars now that might restrict the carriers within the modes?

Mr. RAE: Oh, no, as far as we know the new commission might apply it exactly the way we would like it applied. However, they might not. If those words were put in, presumably they would do just that.

Mr. BELL (*Saint John-Albert*): Well, thank you very much. I hope I remember to ask somebody connected with the bill about this.

The CHAIRMAN: I will have this referred to Mr. Armstrong.

Mr. ROCK: Mr. Rae, with respect to the interpretation you gave of a captive shipper, I would like to ask you if another example would be parallel to the one you gave, but I will go deeper into the subject matter. Take the case of a producer who is 600 miles away from a principal large city who is in the same situation as the one you mentioned, where he has transportation facilities available to him by means of water, highway and rail, and he was selling goods at a certain price and shipping them to either the city of Toronto or the city of Montreal. Now, compare him to a manufacturer who is producing the same goods and whose plant is located 100 miles from either the city of Toronto or the city of Montreal, who starts selling at 50 per cent of the other's cost. Would this person who is 600 miles away consider himself in the same situation which you mentioned before, that the next rate available to him would be \$1.75? Would you say he could be considered to be a captive shipper? This would be an economic situation as far as he is concerned.

Mr. RAE: Mr. McAllister, have you been following this close enough to answer?

Mr. J. McALLISTER (*Member, Canadian Manufacturers' Association transport committee*): You are speaking now about competition between two producers at much different distances from the prime market?

Mr. ROCK: Yes, but at first the second one did not exist.

Mr. McALLISTER: Right. A producer showed up who was closer to the prime market and was able to undersell the far away producer by a considerable amount. You are asking if that would automatically convert the faraway shipper into a captive shipper?

Mr. ROCK: That is right, because if he tries to get another mode of transportation, it would be higher. He would have to depend on that rate only to stay in business.

Mr. McALLISTER: I suppose there would be situations where, by the very fact of the arrival of a new competitor, he could be nearer and better able to serve the market. In some cases he could be converted into a captive shipper and, in others, he would not. It would depend, to a great deal, on the mathematics that would result and the margin of profit which the nearby shipper was willing to take for his products. The nearby shipper might

immediately put his price at the level the faraway fellow was charging at the prime market and make a large fortune in a hurry.

Mr. Rock: If he was wise enough, yes. In regard to your submission concerning the inclusion of commuter service which is on pages 3 and 4 in the same category as passenger service, is your Association for maintaining commuter service and passenger service, or do they just want them to take the consequences, when the fine arrives, if the train is not economical under the terms of this bill. By that I mean there are some relevant matters on which the Commission has to base their opinion which are shown in paragraphs (a) (b) (c) (d) of the bill at the top of page 31. I will read them:

- (a) the actual losses that are incurred in the operation of the passenger-train service;
- (b) the alternative transportation services, including any highway or highway system serving the principal points served by the passenger-train service, that are available or are likely to be available in the area served by the service;
- (c) the probable effect on other passenger-train service or other passenger carriers of the discontinuance of the service, or of parts thereof; and
- (d) the probable future passenger transportation needs of the area served by the service.

Do you want to include the commuter service to give it a break so that they could be compensated if the service is unprofitable or is it to give the railways a chance to get rid of it whenever it is not economical.

Mr. RAE: We want whatever is the proper economic disposition of it based on the same approach being taken to passenger commuters as to all their passengers. If the rates can go up and make it work properly, that is fine. If no rates that can be worked out will make it pay, then it is presumed it should go unless it is one of the restricted set. We do not see why commuters, as such, should be treated any differently than any other passengers. We want commuter services. After all, our people ride them.

Mr. Rock: This is why I asked the question.

Mr. RAE: We want the rates and the service where there is an economic need or a public interest for it. If it is a public interest factor, then let it be set aside for the public interest.

Mr. Rock: Then, if we include the commuter service, as you have recommended, would you then agree that these relevant sections that I just read, (a) (b), (c) and (d), do not give enough protection to the passenger line because nowhere is there included the decline of passenger volume? In other words, the railway companies could, at any time, abandon or discontinue that service without any regard to the volume of traffic on that service, having regard only for the profit factor involved in (a), (b), (c) and (d). I would like to recommend that the Committee include a paragraph (e) which would have to do with the decline of passenger volume. I would like to know your opinion on this.

Mr. RAE: It seems to me that if there are passengers there to be carried, section (b) has a great deal to do with it. If there are no passengers, then I guess there is no kind of commuter service that will pay for itself.

Mr. Rock: Yes, but in paragraph (b) they are only talking about alternative transportation in the area. For example, in the city of Montreal, we have the commuter service in the north end and in the west end and yet we have all kinds of other transportation facilities. We have provincial buses and, closer to Montreal, we also have the transportation system of Montreal, as well as taxi service and the highways. Therefore, according to these relevant paragraphs here, (a), (b), (c) and (d), at any time, because the commuter service is not profitable, they could ask for the discontinuance of that service under the terms without regard to volume.

Mr. RAE: Yes, if there are a lot of passengers and it is still not profitable, I would say that there is only one answer; you put up the rates.

Mr. Rock: I can understand that. So far as the C.P.R. is concerned, on the lines I mentioned, their officials told this Committee this summer that the lakeshore line is profitable. The President of the C.N.R., just a few days ago, mentioned that they lose no money on the north shore, but his problem is the future; in other words, what will happen in the future when they have to renew equipment because, in a case like this, they will never be able to reimburse the capital invested in the new equipment. This is a situation which is not covered at all here, and they could, immediately at that point, demand the discontinuance of the service because the rates would be so prohibitive if they had to purchase new equipment, with the high rate of interest that they have to pay today on such loans. I believe that in another five or ten years, with the attitude that is taken, the commuter service system on the Island of Montreal will disappear because they will be asking for the discontinuance of the service due to that factor. I agree with you that if we do include commuter service under that section that you have proposed, and if the Commission knows it is unprofitable and still demands that the service be maintained, then the railway company will demand the reimbursement of that loss—80 per cent of it—from the government. Instead of this, it seems that the only concern of the C.P.R. and the C.N.R. is the renewal of their equipment in the future to maintain future service. Therefore, would it not be better and more profitable to recommend for the future that there would be an incentive where the federal government would pay, say a certain percentage, 50 or 60 per cent of the cost of construction of new equipment for passenger or commuter service, which would put them on the same basis as before. In other words, they will not have to lay out that amount of capital; they will not have that amount of interest to pay and the reversement of the loan for this capital expenditure.

Mr. RAE: I really am not prepared to give a lengthy dissertation on this. In fact, I may be slightly off base. This is getting a little deeper into an area that we really have not given much thought to. But after all, the principle of whether a government or somebody else puts money into commuter equipment reflects some very sore ideas about the public interest. The proposition you are making is not completely new. It is done in a few places in the United States and, in fact, even in Ontario. By this time next year there will be some equipment running which the government has paid for because a commuter operation is wanted and the railways themselves simply could not buy them.

But they did it with a very definite public interest situation in mind, and I would say that wherever those public interest situations arise you will find some kind of a solution of this kind. But it is beyond the buyers of freight which is what we are, to get down into the fine studies of this. If we wanted to study it we would probably come up with something, but there are people around who know a lot more about that than we do. At this point, we are just second or third wizards; we do not really care to give you real advice in this area.

Mr. ROCK: You are interested in the idea of commuter service as a service that is important to the people working for the manufacturer.

Mr. RAE: To that extent we are part of the public interest, but it is a much smaller part and a much more specialized part than the area in which we earn our bread and butter.

Mr. STAFFORD: Mr. Rae, do you feel that a captive shipper then is not properly defined in Section 336?

Mr. RAE: That is correct. Well, we think it is a definition, but we do not know that it means.

Mr. STAFFORD: Does it not mean that anyone, where there is no alternative effective and competitive service, can apply for a rate?

Mr. RAE: Yes, but what does "alternative" mean? Does it mean that there is no other carrier in existence?

Mr. STAFFORD: No, it must be all of "alternative, effective and competitive". Would you say a transportation would be effective if the rates were 60 per cent higher? Is that what you are trying to say?

Mr. RAE: I know what I would say. I am much more interested in what this commission would say.

Mr. STAFFORD: I am asking you this. Would you say that two transportation systems are competitive if one has rates 60 per cent above another?

Mr. RAE: My normal answer would be they were not, but I could imagine situations in which they, were, in fact, competitive.

Mr. STAFFORD: Where could you imagine a situation?

Mr. RAE: In some cases they might not be very much less, but 60 per cent might be a big factor. In terms of money in the particular situation, it might not amount to a great deal. Mind you, I do not know of any of those situations. I am just trying to clarify a principle.

Mr. STAFFORD: Well, let us take a look at the principle here. Any alternative that was both effective and competitive would be a rather all-inclusive definition, and if anyone understood the English language they could point to it as being an alternative and effective and competitive service, could they not?

Mr. RAE: I am not all sure that in the hands of a group of commissioners they would always come to the same conclusion in this area as we would. May I just go back to the first part of that question. In very high value traffic, where the goods themselves could bear a high freight rate, it would be conceivable that two systems, quite different, could be, in fact, competitive. But competitive

is a word and I do not really know what it means. Suppose there were shirts being sent from Kitchener to Toronto. The whole business would not fall apart if it had to take a rate 60 per cent higher, perhaps.

Mr. STAFFORD: We are not talking about if they had to take a rate. Is this not the meaning of section 336? I am a new member of this Transportation Committee and probably know less than anyone else here about it but, just looking at the ordinary words used in Section 336, I have been trying to understand myself how one could use additional adjectives or better adjectives in order to encompass the meaning of a captive shipper. Now, can you give the Committee here any better ones than are there?

Mr. RAE: Well, of course, we had a very definite answer: do not use any of them; go back and define them by his act.

Mr. STAFFORD: Would you just explain once more, why your definition would be better than the one in section 336? Forget about the shipper who, for instance, could sign up for a period of not less than one year. What about all the others? Would you just explain that.

Mr. RAE: I would question a shipper with certain shipments, if he was not prepared to sign up for one year—after all, this is inherent in the rest of this act anyway; I think we picked the one year from right in the centre of the act. Any shipper who was prepared to say, I cannot negotiate but I am prepared now to go to a commission and say to them, you, in your wisdom, set us a rate, we are prepared to give 100 per cent of the tonnage being discussed, not necessarily all these tonnages; and when a shipper is ready to come forward and say, I am prepared to be bound by a decision although I do not know what it is going to be, give me a rate because I am now prepared to tie myself for a year to whatever that rate is, you know he is a captive shipper, because he is telling you that his ability to bargain is not worth two hoots. By definition, that is what he is saying, and that is the only way you can tell whether a man really is a captive shipper.

Mr. STAFFORD: I am not talking about people who probably ship as much as you do or the group we had here yesterday; what about the thousands of other people who are not prepared to ship for a year? Is not the wording of Section 336 much better for the common, ordinary individual who ships and wants a rate, rather than someone of the magnitude of your company?

Mr. RAE: This business of a year really is not based on magnitude. If freight means anything at all to businessmen generally, they are carrying it on over a period of time. The person who once in a dog's age makes a shipment seldom really cares, and he is not going to go to all this bother. But we are talking about shippers who are part of the industrial commercial life of the country, not necessarily large. He can be quite small and be in this kind of a spot. But if shipping was one of the end results of your business and you had to ship to carry on business, you would be projecting yourself for a year. It may pose a problem to you but to people who do ship, and we represent a great many very small shippers, it does not mean any problem from that point of view. The act that was put before us does have this one-year clause in it. That is why we grabbed the one year. We tried to stay as close to the act as we could.

Mr. STAFFORD: Since you are saying that anyone, regardless of how small a shipper he might be, can sign up for the year, with no problem at all, not taking into consideration any of the magnitude of the shipper, then what you are really trying to say is that anyone can apply any time to fix a rate if they are dissatisfied.

Mr. RAE: Yes, that is what we believe. We believe he should, but we do not think it will happen very often.

Mr. STAFFORD: Might I ask another question. Suppose a person is dissatisfied with the rate set, say by the railway and applies to the commission and has a higher rate, would you say that he should naturally accept the higher rate?

Mr. RAE: Well, this is where he would be reasonably cautious, if he is still negotiating. He can negotiate all he likes.

Mr. STAFFORD: It is beyond me, Mr. Rae, how your definition improves on section 336(1) in the proposed Bill C-231 unless, of course, you want everyone to have an opportunity to go to the commission at any time they want.

Mr. RAE: If they are prepared to say: "I will give you 100 per cent of the traffic," which we are discussing at this point, and are prepared to pay that rate for a year, we believe that it is the one definition that will bring forward—

Mr. STAFFORD: I just want to ask you this one question. Where there is an alternative, effective and competitive service, looking into the real meaning of all three adjectives, do you still think it is right that a person should go and apply in this challenging world of ours where one company is trying to do business against the rates of another? Do you still think that everyone should have an opportunity to apply to the commission?

Mr. RAE: Yes, although, mind you, I say he has the right because I do not think he will take it. I suspect that your interpretation of those words and mine—and most of ours we think are quite possible—would work but we do not know if the commission is going to take our interpretation.

Mr. STAFFORD: You do assume, do you not, that all the adjectives go together—"alternative, effective and competitive". It does not say "or competitive".

Mr. RAE: I would not assume that.

Mr. STAFFORD: Might I just ask a question on clause 39. Do you think the changing of "may" to "shall" will put an obligation on the commission to hear witnesses whether they were necessary or not?

Mr. RAE: May I just look back for a moment?

Mr. STAFFORD: It is on page 19 of the bill. I could not find it again in your brief.

Mr. DEACHMAN: It is on page 4 of the brief under Item 317. In the last three lines of your amendment you substitute the word "shall" for the word "may" in two places.

Mr. STAFFORD: In other words, when the commission is thoroughly satisfied that they have heard enough witnesses, you do not think there should be any discretion on their part at all like, for instance, in other judicial bodies where

they could have anything to say about the number of witnesses. By putting "shall" in there, an individual could call in as many as he wants, and there would be no restrictions.

Mr. RAE: Over here are the rules of procedure that, we presume, will help. We recognize there have to be some rules of procedure but the act provides for their making that kind of thing. The way it sits now you might say: "So they have made a *prima facie* case, so what", so we do not do it.

Mr. STAFFORD: You do not feel then that the council would listen to the representations of the individuals concerned and deny them justice?

Mr. RAE: I would not know what they would do.

The CHAIRMAN: I think it is time to call on Mr. Fawcett. Before doing so, on this point raised by Mr. Stafford on this word "may", would you not agree—and this may be a legal interpretation—that the word "may" and the whole section in fact, is really permissive, and it really does not provide the commission either with the right to hear anyone or the right not to hear anyone?

Mr. RAE: I am not a lawyer.

The CHAIRMAN: I put it to you, Mr. Rae, because you did make a suggested amendment. I would think that before that amendment came forward you did have legal advice on it.

Mr. RAE: We did have advice on it. We believe that "shall" is stronger.

The CHAIRMAN: For clarification, do you not believe the word "may" is really permissive and provides the commission neither with the right to hear or not to hear; it is just strictly permissive. It is up to the commission to determine whether or not they will hear, because it could be, as Mr. Stafford said, that something could come up that would be irrelevant and there should be no right to hear someone and waste the time of the commission.

Mr. RAE: But does this not follow the making of a *prima facie* case?

The CHAIRMAN: We are discussing the word "may". This is what I am trying to clarify.

Mr. DEACHMAN: Mr. Chairman, he may apply only if a *prima facie* case has been made. The commission is the judge as to whether there is a case.

The CHAIRMAN: That is right, if there is a *prima facie* case.

Mr. DEACHMAN: It is entirely permissive.

The CHAIRMAN: Yes, permissive not a right.

Mr. DEACHMAN: So whether we have the word "shall" or "may" does not matter.

The CHAIRMAN: They will be allowed to appear if there is a *prima facie* case. Then if they prove a *prima facie* case the commission may allow them to make further representation. It is strictly permissive. It does not deny the right.

Mr. RAE: You got my point exactly.

The CHAIRMAN: No, I am only saying that, Mr. Rae, because we have been dealing with it. I am trying to get your point on the other side, that it does not deny you the right.

Mr. RAE: No; that is quite true. I agree that it does not deny the right. I am not implying.

The CHAIRMAN: That is what I want to get clarified.

Mr. FAWCETT: Mr. Chairman and Mr. Rae, perhaps these gentlemen wonder why we keep belabouring this interpretation of a captive shipper but I think this is the most controversial part of this bill and certainly one of the most important parts of the bill. Now, I am just going to simplify this to see if we can come up with what your interpretation is of a captive shipper. I am going to give you an instance of an iron ore company which operates in my locality. They ship between 30 and 40 cars of pellets per day about 140 miles, where it is dumped on the dock and loaded in ore boats. Now, obviously it would be completely unrealistic to say that this ore could be handled in any other manner. Under those circumstances would you say that this iron ore company was a captive shipper?

Mr. RAE: Mr. McAllister, would you like to answer that because you know more about the iron ore people than I do.

Mr. McALLISTER: You have stated that this fellow is captive because there is no other way.

Mr. FAWCETT: I said that it would be absolutely unrealistic to even imagine that he could handle this ore in any other manner than by rail. Certainly, transport companies could not handle it and compete; that is for sure. They could handle it but the rates would be so excessively high that the iron ore company could not operate.

Mr. McALLISTER: This would appear to be one of the cases where a captive shipper status could be claimed under our definition or the bill's definition.

Mr. FAWCETT: The reason I asked that question is that I know they do have a negotiated rate with the railways. Now, Mr. Gordon, when he was asked about the interpretation of a captive shipper, if I recall correctly, said that he could not think of any one instance where any one that they were involved with could be termed a captive shipper. I think the way he explained this was that they invariably negotiate rates. He also said that it would be very unrealistic of them—I am just paraphrasing—to set a rate that would restrict the shipper to the extent that there would be no business at all. In other words, they try to establish a rate that is compensatory for the railway and a rate that will permit that shipper to continue to operate.

Do you know of any specific instances where a shipper has been restricted to the point where he had to go out of business or his business was tied up because of the inability to negotiate a rate with a transport company? Do you know on any specific instances of this kind?

Mr. RAE: No, I would not be able to say if this was the instance but I suspect there are some. I also suspect that in many cases one could ask, would know what rate would keep them in business?

Mr. FAWCETT: Well, this was the reason that Mr. Gordon was so emphatic that he could not think of a single instance of a shipper that could be considered as a captive shipper. I just wanted to get this—

Mr. RAE: We are saying something not too far from Mr. Gordon's trouble. We are not miles apart. We are a little apart in our emphasis but the fact is by making the definition that we made we were in fact saying that there are a number of people who cannot negotiate a rate. Here you have intelligent people

with their business in their hand, and you have a railway group—we are talking about railways here but it would not necessarily be so—in this country with some of the most intelligent rate people. I mean pricing people. The railway people in this country are some of the finest pricing people the world has ever seen. Now, you put those people across from merchants and manufacturers with their own problems and if they cannot come together to get some type of settlement, that is, pretty well, some sort of thing that will work, it is almost certain that one is not getting quite as much as the other one. We feel there will be a strong tendency to have the railway, perhaps, get more of that than the shipper, as we usually speak of him.

Mr. FAWCETT: Yes.

Mr. RAE: But this is really what Mr. Gordon is saying and in a broad way we think that it is probably right. We do not think there are very many captive shippers, but we would not be going on record as saying that there were none. We think there might be some here and there.

Mr. FAWCETT: Well of course Mr. Gordon did not—

The CHAIRMAN: But you cannot give any examples.

Mr. RAE: Oh, no, we cannot give any examples.

Mr. FAWCETT: Mr. Gordon did not say that there were none, he said he could not think of any instances. I have just one last question, Mr. Chairman. I was just wondering, with your experience in negotiating rates, did I understand your answer to Mr. Olson correctly that you have to more or less use a hypothetical formula of your own on railway costing, or do the railways give you some indication of what the cost of transportation is so that you can compare one against the other.

Mr. RAE: No. By and large the shipper figures out what kind of a rate he can reasonably pay and stay in business, or to what extent he can stay in and what the alternatives are. He starts looking around to see where he can set up another plant some place or whether he should give up some market as not being worth bothering about. But a market he is not trying to sell to or ship to, the railway is not carrying anything and they come together. All we want are rules for those who come together, Marquis of Queensbury rules, that is what we really want.

Mr. FAWCETT: In other words, the railways do not give you any indication of the cost of transportation in this respect?

Mr. RAE: Oh, sometimes they will if they think it is in their interest to tell us. The many ways in which rates are negotiated would fill many, many books. That is why we earn our living doing it.

Mr. FAWCETT: I will pass, Mr. Chairman.

The CHAIRMAN: Mr. Byrne.

Mr. BYRNE: Is it not true, Mr. Rae, that probably there are a multitude of captive shippers in the country. They are not indigenous because they just cannot negotiate a freight rate that would put them in business. So, a captive shipper is pretty hard to define.

Mr. RAE: Well, potentially there are people who cannot negotiate rates because they cannot get anything low enough to do business with.

Mr. BYRNE: Well, I think we are arguing over semantics. You are objecting to the exclusion of commuter service being services which would be subsidized

under the act? In my particular area, which is far-flung, we have people using their own automobiles, driving 30 or 40 miles. We have hundreds of them driving from 5 to 35 miles. They are regular ratepayers and they pay their licences and gasoline taxes, and so on. But a commuter service as defined here, a railway service, is something that is just not possible and could not be considered. So, a commuter is something different from a passenger. A passenger is a traveller, but a commuter is a person who goes back and forth, day to day. Is not this commuter service more the responsibility of the municipality or the province which may save in roadbuilding and road construction and/or some other type of service.

Mr. RAE: I believe this is the form in which public interest would be manifest in this kind of situation. But in many cases it would not cover this kind of situation at all. It might be in the national public interest but it might well be a local public interest.

Mr. BYRNE: It might well be a local public interest which of course is more the responsibility of the local authority and the provincial authority not the public.

Mr. RAE: We are not trying to say that it should be the national interest that should always look after all this. If we gave any impression of that kind we want to take it back in a hurry because it is not necessarily so.

The CHAIRMAN: Along that line, Mr. Rae, the bill provides for 80 per cent subsidy against loss. In line with what Mr. Byrne was asking and you seemed to agree, would you be suggesting that the C.M.A. would be in favour of the other 20 per cent being picked up by the province or municipality, depending on whatever agreement they could enter into between themselves?

Mr. RAE: I think this goes far beyond anything this group knows anything about. I do not think we could give a sensible answer to it.

The CHAIRMAN: Well, the thing is that commuter services are completely within a municipality or a number of municipalities and it could be within a province. The railways take the position that they should be completely reimbursed for 100 per cent of their losses, but it seems to me, from what I have been able to fathom, that commuter services have been looked at as a part of urban transportation and urban affairs. Some provinces are so jealously guarding their urban affairs that perhaps these provinces should pick up the other 20 per cent loss; that is what I am saying. What are your views on that?

Mr. ROCK: Definitely not.

Mr. MACALUSO: I am not asking your view, Mr. Rock. I am asking for the witnesses' views. No, I am asking the witnesses, not the members, Mr. Rock.

Mr. RAE: It seems to me that this is really beyond the competence of the group we have assembled here.

The CHAIRMAN: You are saying it is in the national interest for the public taxpayer, the Canadian taxpayer, to pay the complete subsidy to, say, the commuter service in Montreal or the commuter service in any other city, keeping in mind that the province of Ontario is paying its own commuter service between Toronto and Hamilton.

Mr. RAE: I see your point. Our point was simply that if it qualified as a passenger service, as a national interest, then it should be a national interest but I suspect in most cases it would not be a national interest.

The CHAIRMAN: How can you foresee a commuter service within a municipality or municipalities being in the national interest?

Mr. RAE: I would not know but that does not mean it could not be.

The CHAIRMAN: Well, wait a minute now. Please give me an indication whether it is or is not, not that it means it could not be. Give me indications where it would be in the national interest.

Mr. RAE: Well, I just do not know. You are asking me to make a positive statement in one direction—

The CHAIRMAN: Well, yes, because you have made a positive statement in your brief that these should be included in this bill.

Mr. RAE: That is right. We are doing it within the context of areas in which a national interest is demonstrated. Is that right?

The CHAIRMAN: Well, I would like to know for curiosity, where would a commuter service throughout Canada be in the national interest?

Mr. ROCK: Between your city of Hamilton and Toronto—

The CHAIRMAN: Mr. Rock, no statements; just questions.

Mr. ROCK: Yes, yes. I am asking you the question. Is it not true that the reason the province is paying for the service between Hamilton and Toronto is that if they were not they would have to build another highway between the two municipalities. And, is it not true that within the limits of the city of Montreal, the highways are already being built. So therefore it is not—

The CHAIRMAN: I am sorry, Mr. Rock, the highways are which?

Mr. ROCK: The highways are already being built. So therefore it is not the same situation.

The CHAIRMAN: Oh, I disagree with you on that point. Mr. Deachman?

Mr. DEACHMAN: Mr. Rae, I refer to page 3 and section 4 of your brief, dealing with the application of Part III, extra-provincial motor vehicle transport. In the last two lines of that paragraph you recommend that the date for the application of Part III be not later than two years from the coming into force of the act.

Before I ask you to reply, I want you to refer now to page 14 of the bill which deals with Part III—Extra-provincial motor vehicle transport and to the explanatory note which accompanies that section which reads in the last sentence:

If it becomes desirable, in terms of the objectives of the national transportation policy, to regulate extra-provincial transport at the federal level, the new Transport Commission would be the regulatory authority. The necessary regulatory powers would be provided by this part.

I suggest that the emphasis you put on the application of Part III is ever so much more urgent than the emphasis which is placed upon the implementation of that section by the drafters of the bill. I would like to know in general terms your reasons for this.

Mr. BARRON: Our general reasons are that the motor transport regulation, at present, is within the authority of the respective provinces and you have an area, when you refer to extra-provincial regulation, where each of the provinces has something to say but no province has absolute authority over the

undertaking or the application. For instance, if a transport wishes to do business between Ontario and Quebec, it has to get the assent of the two boards. One might grant it and one might decline. There is a certain jungle at the present time which we think would be adjusted and remedied by the authority of the new commission. This authority is resident in the federal government and if they are going to have an over-all transport policy covering all modes, why not implement mode of transport into the act, as well as the other modes.

We think there should be some specific date mentioned and not left hanging in the air. It could be 10 or 15 years, the way the present bill reads.

Mr. DEACHMAN: Do you think that the drafters of the act were not aware of this jungle and were not anxious to do something about unraveling the problems in this jungle of transportation when they drafted this section of the bill? Do you feel by amending it, as you say, to implement it in two years, you are much more aware of the necessity of doing this than are the drafters of the bill?

Mr. BARRON: I cannot say definitely what was in the minds of the drafters of the bill, but I know we wanted some definite period within which the federal authority would be invoked. We suggested two years, but I do not say this could not be changed if circumstances require that it be three or four or five years, but let us have some definite target to aim at and some commitment so we know this will come into being and will not be left indefinite.

Mr. DEACHMAN: Now, having regard to the difficulties which may be inherent in dealing with a problem of this kind which will stretch over 10 provinces and the time it is going to take to organize and get the new commission in operation, when one considers that this section has been drafted and has been included in the bill, would you be willing to go along with the new commission, that by putting this section in the bill they indeed had in mind that this was a problem that needed to be faced and faced with some real urgency, and not insist that they be held to two years, which might not be realistic at all and might create problems for them?

Mr. BARRON: Well, in the explanation on Part III it says: "If it becomes desirable, in terms of the objectives of the national transportation policy, to.. " We think it is desirable to do so and we would like some definite commitment. Now if the introduction of the new legislation and all it entails requires more time, I would not think for a moment that we would have any objection to extending it to five years, but we should have something of a definite commitment rather than the ambiguity that exists at the present time.

Mr. DEACHMAN: Mr. Chairman, I have one more question to ask. Do you believe that the nine provincial administrations, along with the federal administration think that this should be straightened out in a matter of two years? I realize you feel it should but are you quite sure they are in agreement with you and that this should be wound up and put into operation in two years?

Mr. BARRON: Oh, no. We have not consulted any of the provincial legislatures.

Mr. DEACHMAN: I am sure, and I know you are sure, that the commission is going to have to consult them and do some pretty fine bargaining before they get this thing workable.

Mr. JAMIESON: Mr. Chairman, I would like to refer Mr. Rae to page 4, item 7 of the brief, in which you talk about the special appeal and investigation. In the last few lines of your second paragraph you state:

It is submitted that an individual, a company or industry could face insuperable difficulties in attempting to prove that public interest had been wronged, despite gross unfairness by a carrier in its treatment of one shipper compared to its treatment of another.

You have made a very good case this afternoon for your horse trading capacities and abilities and for the fact that generally speaking you can get the best possible arrangement for yourselves or for your members, but can you conceive of a case where there would be what you call "gross unfairness" by a carrier in his treatment of one shipper as compared to another and under the circumstances that you yourself have outlined of horse trading and of getting the best rate, and so on?

Mr. RAE: Yes, I believe there could be one because in a place where a big part of the bargaining power happened to be in the hands of a carrier, his interest would not necessarily mean that he wanted to treat everyone the same. As a matter of fact, he might quite unwittingly treat someone unfairly. This is like getting on a streetcar with a giant. He may be a very gentle giant but he may step on your toes.

Mr. JAMIESON: But in point of fact, at the present time, among the many hundreds of organizations which you represent, are you aware of any gross unfairness?

Mr. RAE: At different times I have heard shippers complain that there was gross unfairness.

Mr. JAMIESON: Yes, but that is perfectly natural, surely.

Mr. RAE: Yes.

Mr. JAMIESON: The point I want to make here is this. It seems to me that if this amendment, or suggestion you make here, were put into effect it would really defeat one of the main purposes of the bill. I think it was Mr. Gordon who said "Let competition determine rates." In other words, it is the competition at the market place. This is also designed to eliminate constant appeals to the board amongst shippers and the like, and to put it on a more or less competitive basis.

If this section that you are suggesting here were to be put back in, it seems to me that we would wind up with pretty much the same situation that we have now, or, perhaps even worse, where anybody and his uncle could, in fact, come before this commission and protest on the ground that he believed, on his own study, that any act or omission of one or more railway companies, and so on, had been unfair to him.

In other words, you have said that you like the new concept of the bill and that you are prepared to go to work on it. I suggest that if this were intruded it would, in fact, detract substantially from what you have said you approve of.

Mr. RAE: I do not think that is correct. We are looking for a court of appeal, and this act did not give us one that was worth two hoots. If you do not have one the natural thing is that the railway people will be careless. They will be looking at their own objectives and letting it go at that. If both sides got all the facts; you probably would not have to worry about it too often, but people have

different views of the same facts in many, many cases. We say that this type of thing means that if somebody comes up with a *prima facie* case, which shows some sort of situation, the board may dispose of him pretty quickly.

Mr. JAMIESON: Are you still prepared to say that such a *prima facie* case has to prove that there has been some damage to the public interest?

Mr. RAE: No; I think they would be in terrible trouble trying to make a public issue of it.

Mr. JAMIESON: In that case what you are saying is that this new commission must still be in the act in terms of, in a sense, organizing the rate between competitors, whether it is a public interest case or not?

Mr. RAE: I do not think I follow that.

Mr. JAMIESON: Let me put it this way: The present intention of the act is to protect the public interest, and I suggest that probably deliberately other references have been taken out for the very reason that the act states that it wants the competitive elements to prevail. Therefore, if you are saying that it does not have to be the public interest which prompts this kind of an appeal, or prompts the commission to act, then it must be a complaint of a competitor against some other company; so that you have the commission back in the business of regulating rates between individuals, or companies.

Mr. RAE: Yes; that is what we want.

Mr. JAMIESON: Then you are opposed to the basic principle of the bill, or one of the basic principles?

Mr. RAE: We want this to be a pretty infrequent sort of situation. In fact, we are pretty sure that it will be an infrequent situation.

Mr. JAMIESON: You are?

Mr. RAE: Yes; it is not frequent now. Even under the present rules the number of times that the Board of Transport Commissioners are involved in situations between a couple of shippers is fairly infrequent. If you can go back over the history there are certainly instances of it, but in terms of every day operations it is not a big factor.

Mr. JAMIESON: Why the amendment, then, Mr. Rae?

Mr. RAE: Because all the things that led the railways to take too long before they did anything are removed by this act.

Mr. JAMIESON: I would just like to carry on with one or two more questions, if I may.

You mention the broad scope of your organization and the relatively small number of companies which you represent.

I am wondering if there are any figures available on the degree to which you use the various modes of transport. Clearly the railway is probably still the biggest, but is there any indication that trucking is growing, or water transport, or whatever. Is there any breakdown?

Mr. RAE: Yes, there are figures available.

Mr. JAMIESON: I am not interested in specifics, but can you say, as a general rule, that it is 75 per cent railway, or 80 per cent?

Mr. RAE: I will have to get some help on this. There are D.B.S. figures on this, but I think Mr. Jamieson wants to know, in round figures, what they say.

Mr. JAMIESON: Perhaps I can ask this another way, to make it more general.

The CHAIRMAN: Mr. Jamieson is referring to the C.M.A. membership, is he not?

Mr. JAMIESON: Let me put it this way: Is the use of truck transport in its various forms increasing? There have been many forecasts that there are going to be dramatic changes with the increase in the number of highways, and so. Do you visualize the day when you will be very heavily dependent on truck transport and using more of it than you are right now? Is it going rapidly?

Mr. RAE: We would have to answer that as individuals. There are certain parts of the country in which we are using trucks heavily at the moment; in other places we are using rail. I do not think that there is a general answer to that.

Mr. JAMIESON: Surely there must be some kind of answer which says that your membership generally had "x" number of tons that were moved by rail in 1964, and that it was so-and-so in 1965 and 1966. Is there not some way of knowing whether?...

Mr. RAE: We do not have that. I was referring to a general figure for the country, which I say would represent what the C.M.A. members do, within a few decimal points.

Mr. JAMIESON: Forgive me for pressing the point, but there surely must be some indication, even within the membership of the Canadian Manufacturers' Association, whether your members are relying more and more on truck transport.

Mr. RAE: Mr. Barron, you are probably closer to this. Do you know of any figure that would have a direct bearing on Mr. Jamieson's question?

Mr. BARRON: No, we have no compilation; but I think we could say, just in a general way, that secondary industry in the developed parts of the country certainly is a large user of truck transportation, and has become increasingly so because of the flexibility of the truck operation.

Mr. JAMIESON: This answers the question. My information is that it will probably go on increasing. How much of that is speculation?

The reason I ask—if I can be permitted another question—is that I am interested in your assumption that these company-owned or privately-owned trucks are included in this bill. How do you see the commission involved in regulating, in some way or other, privately-owned trucks and the like when, in fact, there are no rates in this case, or anything of that kind?

Mr. RAE: We do not know how they could do it. All we were saying was that the wording of the act presumably would give them that power. What they would do with the power, at this moment I have not the least idea.

Mr. JAMIESON: I must confess that I do not know whether this omission was deliberate or whether it was just an oversight? It will be interesting to find out. If I may I will ask one more question on that same point.

Were you going to say something, Mr. Rae?

Mr. RAE: It even involves the right to operate. I can see that this commission might, in fact, say to private operator, "You cannot operate".

Mr. JAMIESON: That would be going pretty far, would it not?

Mr. RAE: It would be going pretty far, but there is the act, you see. We do not know how people will take it.

JOHN BARRON

Mr. JAMIESON: There is another question which I want to ask, because it has a bearing on this. I suppose, in one sense, a commercial trucker could say that he was being put out of business by companies carrying their own freight. I cannot imagine anybody acting on that kind of thing, but it is conceivable. Again this is a statistical question: Amongst your members who use trucks and truck transport is there again a fairly heavy dependence on company-owned or member-owned transport as opposed to hired transport?

Mr. RAE: There is a very large and substantial usage of private carriage amongst manufacturers.

Mr. JAMIESON: You have no idea what the percentage might be?

Mr. RAE: No; vis-à-vis the common carrier we have no figures. It varies. With some industries, such as the oil industry, it is quite a common thing; they have hundreds of trucks—thousands, I guess. In the detergents industry I think if you looked closely enough you would find somebody who had one or two trucks. But it is a very uncommon thing.

The CHAIRMAN: Mr. Pascoe will be the last questioner, but before Mr. Pascoe may I put this question: Mr. Rae, in reading the report of the MacPherson Royal Commission was it not one of the principles, or philosophies, of the commission that there should be less control of railway rate-making? Do you agree with that?

Mr. RAE: Yes.

The CHAIRMAN: Well, would not your amendment of 317 (i) extensively reimpose commission control over railway rate-making?

Mr. RAE: It would impose a certain amount more, yes.

The CHAIRMAN: Therefore, this would be in converse to the recommendations of the royal commission?

Mr. RAE: Yes.

The CHAIRMAN: That seems to be a qualified "yes."

Mr. PASCOE: Mr. Chairman, the witnesses, by their answers, have, I think, put the point quite clearly before us. I have only one or two questions along a certain line.

You say in your brief that the C.M.A. represents around 600 cities and towns, etc. I imagine that quite a few of those are on the prairies—and I mean by that Manitoba, Saskatchewan and Alberta.

Mr. RAE: Of our membership?

Mr. PASCOE: Yes.

Mr. RAE: I have not got a breakdown.

Mr. PASCOE: I mean on the prairies.

Mr. RAE: Oh, yes, we have many representatives on the prairies.

Mr. PASCOE: Did you get any expression of concern from the prairie members regarding the elimination of the bridge subsidy across northern Ontario?

Mr. RAE: No, I do not believe we had a letter.

Mr. PASCOE: You had none at all?

Mr. RAE: No.

Mr. PASCOE: The elimination of this bridge subsidy is going to cancel the payment of \$7 million to the railways? Do you see any increase in rates from the prairies through the elimination of this?

Mr. BARRON: At the present time this \$7 million subsidy is refunded by the railways. They do not keep the \$7 million; they refund it to the shipper by reduction in rates.

Mr. PASCOE: That is what I am trying to say. Will the elimination of the bridge subsidy increase the rates from the prairies?

Mr. BARRON: There is a provision in the bill for a progressive recovery of the subsidy, as I recall it.

Mr. PASCOE: By the railways.

Mr. BARRON: Yes, by the railways.

Mr. PASCOE: By the railways.

Mr. BARRON: Three years and then two years.

Mr. PASCOE: Yes, but what I am trying to argue is—

Mr. BARRON: No; \$3 million and then \$2 million—in three gradations, they can recover it; but they cannot do it immediately.

Mr. PASCOE: But how is this going to affect the shippers from the prairies? That is what I mean. Is it going to increase their rates.

Mr. BARRON: In some cases, it could. If it increases the rates on the prairies, being transcontinental rates, it will also increase the rates of the eastern shipper, or consignee, likewise.

Mr. PASCOE: Yes; but they only have a short haul compared with the long haul from the prairies. I am trying to get your expression of opinion. Do you see any disadvantage? We are fighting for industrial expansion in the prairies. Do you see any disadvantage?

Mr. BARRON: But is there any difference? You say the prairies have a long haul versus the eastern shipper. From A to B and back from B to A, what is the difference?

Mr. PASCOE: There is a greater charge on the long haul than there is on the short one.

Mr. BARRON: Oh, yes, but there is a long haul for the eastern shipper to get it to the west, as there is for the western to get it to the east.

Mr. PASCOE: Yes; but the market is down here. That is what I am trying to argue. The market is down here.

Mr. RAE: It would not change the rate any. It is just that they would be shipping more to this market.

Mr. PASCOE: I will come back to this point once more. You have not had any expressions of concern from prairie members in regard to this?

Mr. RAE: No. The answer to that is No.

Mr. PASCOE: That is all.

The CHAIRMAN: On behalf of the committee I want to thank Mr. Rae, Mr. Mitchell, Mr. McAllister and Mr. Barron for being with us, and I hope that they have not found appearing before the Committee too wearing.

We will adjourn until nine thirty tomorrow morning, when we will start hearing the Canadian Pacific Railway's brief.

NOV 25 1966

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

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and/or a translation into English of the French.

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LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

STANDING COMMITTEE

ON

TRANSPORT AND COMMUNICATIONS

Chairman: Mr. JOSEPH MACALUSO

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 28

THURSDAY, OCTOBER 20, 1966

Respecting

BILL C-231

An Act to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and to enact other consequential provisions.

WITNESSES:

From the Canadian Pacific Railway: Mr. N. R. Crump, Chairman and Chief Executive Officer; Mr. I. D. Sinclair, President; Mr. John Ames, Assistant Secretary; Mr. W. Miller, General Freight Traffic Manager—Rates; Mr. P. A. Nepveu, Assistant Comptroller; Mr. F. S. Burbidge, Vice-President, Rail Administration.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE
ON
TRANSPORT AND COMMUNICATIONS

Chairman: Mr. Joseph Macaluso

Vice-Chairman (Mr.

and

Mr. Allmand,	Mr. Howe (Wellington-	Mr. Olson,
Mr. Andras,	Huron),	Mr. Pascoe,
Mr. Bell (Saint John-	Mr. Hymmen,	Mr. Reid,
Albert),	Mr. Lessard,	Mrs. Rideout,
Mr. Byrne,	³ Mr. Jamieson,	Mr. Rock,
Mr. Cantelon,	Mr. MacEwan,	Mr. Schreyer,
Mr. Fawcett,	Mr. McWilliam,	Mr. Sherman,
² Mr. Groos,	⁴ Mr. Morison,	Mr. Southam,—(25)
Mr. Horner (Acadia),	¹ Mr. Nowlan,	

(Quorum 13)

R. V. Virr,
Clerk of the Committee.

¹ Replaced Mr. Ballard on October 20, 1966

² Replaced Mr. Chatwood on October 20, 1966

³ Replaced Mr. Boulanger on October 20, 1966

⁴ Replaced Mr. Stafford on October 20, 1966

ORDER OF REFERENCE

THURSDAY, October 20, 1966.

Ordered,—That the names of Messrs. Nowlan, Jamieson, Groos and Morison be substituted for those of Messrs. Ballard, Chatwood, Boulanger and Stafford on the Standing Committee on Transport and Communications.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

MINUTES OF PROCEEDINGS

THURSDAY, October 20, 1966.

(47)

The Standing Committee on Transport and Communications met this day at 9.50 o'clock a.m. There being a quorum and in the absence of the Chairman, the Clerk of the Committee called the meeting to order and obtained unanimous agreement for Mr. McWilliam to take over as Acting Chairman.

Members present: Messrs. Allmand, Andras, Bell (*Saint John-Albert*), Byrne, Cantelton, Chatwood, Ethier, Fawcett Horner (*Acadia*), Howe (*Wellington-Huron*), Langlois (*Chicoutimi*), Legault, Macaluso, MacEwan, McWilliam, Olson, Pascoe, Schreyer, Southam (19).

Also present: Honourable J. W. Pickersgill, Minister of Transport, and Mr. Jamieson, M.P.

In attendance: From the Canadian Pacific Railway:— Messrs. N. R. Crump, Chairman and Chief Executive Officer, I. D. Sinclair, President, John Ames, Assistant Secretary, W. Miller, General Freight Traffic Manager—Rates, P.A. Nepveu, Assistant Comptroller, F. S. Burbidge, Vice-President, Rail Administration.

The acting Chairman introduced the witnesses from the CPR and asked Mr. Crump to make an opening statement.

Mr. Crump read a prepared summary of the CPR brief.

The Chairman having taken over, invited the members of the Committee to question the witnesses.

Moved by Mr. McWilliam, seconded by Mr. Pascoe,

*Resolved,—*That the main brief submitted by the CPR be printed as an appendix to this day's Minutes of Proceedings and Evidence (See Appendix A-13).

Moved by Mr. Langlois (*Chicoutimi*), seconded by Mr. Cantelon,

Resolved that the "Memorandum on Railway Freight Rates" submitted jointly by the Canadian National and Canadian Pacific be printed as an appendix to this day's Minutes of Proceedings and Evidence (See Appendix A-14).

Honourable J. W. Pickersgill tabled the following correspondence:

1. Copy of letter dated September 15, 1966 to Prime Minister from the Premiers of Manitoba, Alberta and Saskatchewan.
2. Copy of letter dated September 14, 1966 to J. R. Baldwin, Deputy Minister of Transport from Counsels for Manitoba, Alberta and Saskatchewan.
3. Copy of Telegram dated October 5, 1966 from the Prime Minister to the Premiers and Counsels of Manitoba, Alberta and Saskatchewan.

This correspondence was identified as Exhibit A-11 and passed to the Clerk for safekeeping.

And the questioning of the witnesses continuing, at 12.50 p.m., the meeting adjourned until 3.30 p.m. this date.

AFTERNOON SITTING

(48)

The Standing Committee on Transport and Communications met this day at 3.55 o'clock p.m., the Chairman, Mr. Macaluso, presiding.

Members present: Messrs. Allmand, Andras, Bell (*Saint John-Albert*), Byrne, Cantelon, Deachman, Éthier, Fawcett, Horner (*Acadia*), Howe (*Wellington-Huron*), Jamieson, Langlois (*Chicoutimi*), Legault, Macaluso, MacEwan, McWilliam, Pascoe, Rock, Schreyer, Southam (20).

Also present: Honourable J. W. Pickersgill, Minister of Transport, Honourable John Turner, Minister without Portfolio and Mr. Nowlan, M.P.

In attendance: Same as in the morning.

And the questioning of the witnesses continued. Mr. Pickersgill tabled further correspondence as follows:

1. Copy of Telegram dated October 7, 1966 to the Prime Minister from Honourable Duff Roblin, Premier of Manitoba.
2. Copy of Telegram dated October 12, 1966 to the Prime Minister from Honourable E. C. Manning, Premier of Alberta.
3. Copy of Telegram dated October 20, 1966 from Honourable J. W. Pickersgill to Honourable Duff Roblin.

This correspondence was identified as Exhibit A12.

And the division bells having rung at 4.20 o'clock p.m., the Committee recessed.

At 4.50 o'clock p.m., the meeting reconvened, and the questioning of the Members continued.

At 6.00 o'clock p.m., the meeting adjourned until 8.00 o'clock p.m., this date.

EVENING SITTING

(49)

The Standing Committee on Transport and Communications met this day at 8.05 o'clock p.m., the Chairman, Mr. Macaluso, presiding.

Members present: Messrs. Allmand, Andras, Bell (*Saint John-Albert*), Byrne, Cantelon, Deachman, Groos, Ethier, Fawcett, Horner (*Acadia*), Howe (*Wellington-Huron*), Jamieson, Langlois (*Chicoutimi*), Legault, Macaluso, Morison, Nowlan, MacEwan, McWilliam, Olson, Pascoe, Rock, Schreyer, Southam (24).

Also present: Honourable John Turner, Minister without Portfolio.

In attendance: Same as morning sitting.

The questioning of the officials of the CPR continued.

Moved by Mr. Olson, seconded by Mr. Schreyer,

That the President of Canadian Pacific Railway be called before the Standing Committee on Transport and Communications of the House of Commons and that he be requested to provide the following information:

(1) The variable cost of the carriage of

- (a) a 30,000 lb. carload of Potash from Esterhazy, Saskatchewan to Vancouver, B.C.;
- (b) a carload of Potash carried in the weight of carload most commonly carried from Esterhazy to Vancouver;
- (c) a 30,000 lb. carload of steel sheets from Hamilton to Edmonton;
- (d) a 100,000 lb. carload of Steel sheets from Hamilton to Edmonton;
- (e) a 30,000 lb. carload of chemical fertilizer from Medicine Hat to Vancouver;
- (f) a 100,000 lb. carload of chemical fertilizer from Medicine Hat to Vancouver;
- (g) a 30,000 lb. carload of Lumber from Kamloops to Winnipeg;
- (h) a 30,000 lb. carload of Sulphur from Pincher Creek, Alberta to Vancouver;
- (i) a 30,000 lb. carload of dressed Beef from Lethbridge to Montreal;
- (j) a carload of dressed Beef carried in the weight of carload most commonly carried from Lethbridge to Montreal;
on the Canadian Pacific Railway.

And the debate thereon continuing, by unanimous consent, Mr. Olson withdrew his motion and gave notice that he would present it at the next sitting of the Committee.

And the division bells having rung, at 9.45 o'clock p.m., the Committee adjourned to the call of the Chair.

R. V. Virr,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

THURSDAY, October 20, 1966.

• (9.30 a.m.)

The ACTING CHAIRMAN (*Mr. McWilliam*): I will now call the meeting to order. First, I would like to introduce the witnesses to the Committee. On my right is Mr. Crump, chairman and chief executive officer; Mr. I. D. Sinclair, the president; Mr. Ames, the assistant secretary; Mr. W. Miller, general freight traffic manager, rates; Mr. P. A. Nepveu, assistant comptroller and Mr. F. S. Burbidge, vice president, rail administration.

I think Mr. Crump would like to lead off this morning. I will now call on Mr. Crump.

Mr. N. R. CRUMP (*Chairman and Chief Executive Officer, Canadian Pacific Railway*): Mr. Chairman, and Mr. Pickersgill, and hon. members of the Committee, I would like first of all to say that Canadian Pacific welcomes the opportunity of presenting its views to the Committee on Bill No. C-231. I have with me officers of the Canadian Pacific who have just been named by the Chairman who I hope will be of assistance to the Committee in its deliberation.

Dr. Bandeen, who was here with the Canadian National last week, made a presentation on the principles of costing, and I believe he made it clear that his presentation was on behalf of both the Canadian National and the Canadian Pacific. To avoid repetition we do not need to repeat that.

Canadian Pacific has submitted a brief of our views on Bill No. C-231 and also a summary of the brief. The summary is only about a dozen pages and I think it might be wise to refresh your memories. It has frequent references to sections of the Railway Act. With your permission, Mr. Chairman, I would propose to read it and then we could go directly to discussion.

The ACTING CHAIRMAN (*Mr. McWilliams*): Is it agreeable to the Committee?

Some hon. MEMBERS: Agreed.

Mr. CRUMP: Summary of the Canadian Pacific brief to the Committee on Bill No. C-231.

1. Transportation is important to any nation but in Canada it has a special significance because we have a relatively small population which is spread across a narrow strip of our country extending over a distance of more than 3,000 miles. The MacPherson Royal Commission on transportation conducted one of the most thorough investigations of transportation problems ever made in Canada.

2. The conclusions of the MacPherson Commission have been generally accepted and they have provided the framework for the development of a national transportation policy.

3. The national transportation policy, as defined in Bill No. C-231, is that: "An economic and efficient transportation system making the best use of all available modes of transportation at the lowest total cost is essential to the economic well-being and growth of Canada."

4. The objectives of this policy are: an economic and efficient transportation system under which all modes of transport are able to compete and achievement of the lowest total transportation cost to the country.

5. Clause 1 sets out the conditions for the achievement of these objectives: "—except in areas where any mode of transport exercises a monopoly:

- (a) regulation of all modes of transport with due regard to the national interest will not be of such a nature as to restrict the ability of any mode of transport to compete freely with any other modes of transport;
- (b) each mode of transport, so far as practicable, bears a fair proportion of the real costs of the resources, facilities and services provided that mode of transport at public expense; and
- (c) each mode of transport, so far as practicable, receives compensation for the resources, facilities and services that it is required to provide as an imposed public duty—"

6. In our view this policy is sound. We consider that if it is faithfully carried into legislation and correctly interpreted in the administration of the legislation, Canada will achieve the objectives it seeks.

7. The objectives of national transportation policy cannot be achieved unless the railways have economic and efficient plants and provide the facilities needed to meet new and changing requirements of the nation's economy. This requires that millions of dollars be spent each year. For instance, railway capital expenditures of Canadian Pacific in 1965 were \$103 million and this year we are planning to spend in excess of \$110 million.

As expenditures of this size must be made year after year, it is necessary that railways have adequate earnings. Pending a determination as to what action the railways may take with regard to the burdens imposed on them, freight rates were frozen at reduced levels and the railways received some compensation by way of government payments.

The situation which has prevailed pending enactment of the bill is not healthy for the railways, nor good for the relations between railways and their employees, nor for shippers, nor for the people of Canada.

● (10.00 a.m.)

We do not seek to perpetuate our railway on the basis of subsidy.

What we seek is a climate where there is equal opportunity; a regulatory climate that does not restrict the railways in exercising their particular advantages of low cost operations in competing for traffic nor in adjusting plant and operations to the necessities of changed conditions. With the change from the present position to that envisaged in the bill, a period of adjustment is required. The bill provides for a transitional period during which provision is made for payments on a declining basis. These payments are required in view of the public policies of the past to achieve a fully independent economic and

efficient railway system. At the end of the transitional period, the only payments that would then be required would be payments in compensation for the continued burden of imposed public duties.

Bill No. C-231 provides for the establishment of a Canadian Transport Commission with jurisdiction over carriers by rail, water, air, extra-provincial motor vehicle transport and commodity pipelines. In addition to its regulatory functions, the commission is given a study and research function. It is important that care be taken that the study and research function of the commission does not become confused with its regulatory function nor that it results in the commission assuming some of the functions of management. In so far as the regulatory aspect is concerned, the act must be administered in a manner which will permit each mode to reflect its peculiar capabilities in the achievement of the lowest total transportation costs. Freight rates are important to shippers and all of the people of Canada, not just the railways. The first condition set out in clause 1 concerning the regulation of all modes of transport has the greatest impact upon freight rates. The MacPherson Commission's conclusion on freight rate regulations were, and I quote, "Within the controls for minimum rate regulation and maximum rate controls, the railways will be free to set individual rates by ordinary business standards".

Essentially, the Bill contains three basic provisions: a floor established with reference to variable costs below which rates may not go; maximum rates for shippers in areas where the railway may exercise a monopoly; and subject to the floor and ceiling provisions, elimination of the present regulation with respect to establishing and publishing rates.

These provisions with some exceptions accomplish in substantial measure the objectives of national transportation policy and meet the principal condition necessary to achieve that policy.

Section 334 provides that all freight rates shall be compensatory. This provision is needed for the protection of carriers of all modes. It prevents pricing at less than variable cost.

Section 336 providing for maximum rates for captive shippers covers the situation where the railway may exercise a monopoly. The MacPherson Commission said that in such a case there should be provided, "regulation of a type and extent which attempts to do for industry what universally pervasive competition would do. The rate the captive shipper pays is fixed at an amount equal to the total of the variable cost of the carriage of the goods plus an amount equal to 150 per cent of the variable cost. The Commission is to calculate variable cost on the basis of carloads of 30,000 lbs. in the standard railway equipment for such goods. The MacPherson Commission recommended that any reduction in the rate for carloads in excess of 30,000 lbs. be left for negotiation under ordinary business methods between the shipper and the railway. While the Bill provides for negotiation, it also gives the shipper the statutory advantage of a reduction in the rate equal to 50 per cent of the difference in cost.

We believe the statutory provision for a reduction in the fixed rate is not required. Subject to the provisions for minimum rates and for maximum rates in the case of captive shippers, the MacPherson Commission recommended that

the railways be free to fix and alter rates just as any other commercial concern, including trucks.

The MacPherson Commission emphasized that the type of regulation which it proposed was in substitution for the existing regulation.

Bill No. C-231 eliminates many outdated regulatory provisions. The elimination of these provisions is necessary to permit the railways to compete freely with other modes of transport.

Section 335 of the Bill provides, in effect, that class and non-competitive commodity rates (other than competitive rates) on traffic moving into and out of the "select territory", as defined in the Maritime Freight Rates Act, or within that area, are to remain at the reduced levels established under the Freight Rates Reduction Act for a period of two years after the bill is enacted. It is essential that the period not be extended.

The decision has been made not to alter the Crowsnest pass and related rates. That is spelled out in section 328.

Section 329, which deals with grain and grain products moving at Crowsnest pass and related rates, does not provide for immediate compensation to the railways for the imposed public duty of carrying this traffic. The section provides for a report to the governor in council, specifying the amount of payments necessary to assist the railways to meet the cost of moving this traffic after December 31, 1969. The MacPherson Commission determined that there was a shortfall of revenue on variable cost. It recommended that the railways be reimbursed for this shortfall and also be paid a fixed amount in respect of constant cost.

It has been suggested that the reduction made by the MacPherson Commission in the shortfall of revenue on variable costs for export grain from \$17 million to \$2 million was attributable to the costing methods used by Canadian Pacific.

The reduction made by the commission was not due to the costing methods used by the company. The major reduction was due to the adoption of a different concept by the commission regarding branch lines solely related to the movement of grain and to the use of a different rate for cost of money.

Costing techniques were then sufficiently developed to enable the MacPherson Commission to arrive at a conclusion on the cost of moving grain. Refinements have since been introduced in these techniques. We believe that the proposed commission will be in a position to determine accurately the cost of moving grain at Crowsnest pass and related rates.

It is important that subsection three of section 329 provide further direction to the Commission in determining the amount of payments which in its opinion are necessary to assist the railways in carrying out the imposed public duty of moving grain and grain products at Crowsnest pass and related rates.

● (10.10 a.m.)

This traffic represents the largest single segment of the work performed by the railways. Consequently the payments must provide not only for the shortfall of revenue on variable cost but also on amount in respect of constant

cost that is proportionate to the work performed in moving this traffic. Failure to do this would leave the full burden of constant cost on other traffic. Therefore, a specific direction to the commission should be added to subsection (3) of section 329.

For the determination of rates on grain moving by rail for export to Atlantic and eastern ports from inland points, a direction to the commission similar to that proposed above in regard to Corwtnest pass grain should be included in subsection (3) of section 329A.

Under the present Railway Act the Board of Transport Commissioners possesses wide and sweeping powers of investigation and review in respect of activities of carriers governed by the legislation. By section 5 of the bill, these broad powers are transferred to the proposed Canadian Transport Commission and made applicable in respect of proceedings before the commission under the National Transportation Act.

Subsection (5) of section 334 provides for an investigation by the commission as to whether a freight rate is compensatory. This is a duplication of the powers which the commission is given under sections 33 and 36 of the Railway Act and we, therefore, suggest that this subsection be deleted.

Section 317 gives the commission power to investigate and remedy, at the instigation of any person, any act or omission of a railway company alleged to "prejudicially affect the public interest in respect of tolls or conditions of carriage of traffic." Section 338A provides for investigation on complaint of any person that passenger tolls or tariffs are prejudicial to the public interest.

We propose that this right of complaint in both sections be limited to a person interested. We also propose that the words "or service" be added following the words "type of traffic" at the end of subsection (2) (a) of section 317. In many cases the type of service is as important as the other factors mentioned in this subsection.

Subsection (4) of section 17 provides for an appeal to the commission at large from any committee of the commission at the instigation of a person interested, or at the instigation of the operator of another mode of transport on grounds of discrimination of unfairness. In either event, subsection (5) of section 17 provides that the order appealed from is stayed until the appeal is heard.

Many problems are inherent in the provision for the stay of an order pending an appeal. Furthermore, we do not think that the "operator of another mode of transport" should have rights in appeal unless his mode of transport has been brought under the jurisdiction of the commission.

In any event, we question the need of providing an appeal from a committee to the commission. Such an appeal amounts to nothing more than a rehearing. Under section 52 of the Railway Act the commission has full power to review, rescind, change, alter or vary any of its orders or decisions and this power is exercisable in respect of its functions under the National Transportation Act. We suggest that this power is sufficient.

The elimination of uneconomic branch lines was recommended by the MacPherson Commission and is within the objectives of national transportation policy.

Section 314B empowers the commission to designate the areas and the time within which applications for abandonment may be filed. Under section 314C, the commission must determine if the line is operated at a loss and, if the line is likely to continue to be uneconomic, may order the abandonment and specify the date or may direct the line to be continued in operation. Provision is made in section 314E for payment to the railways of the loss arising from uneconomic branch lines.

Under section 314G, the governor in council may designate areas and prescribe periods within and during which branch lines cannot be abandoned. This section also provides for payment to the railways of the loss attributable to branch lines so designated.

The government has published a map showing the railway lines in the prairie provinces "guaranteed" to January 1, 1975. This map also shows the branch lines which are not included in the guaranteed network and for which applications may be made for abandonment under section 168 of the Railway Act.

It is recommended that the reference to subsection (4) in section 314D(5) which allows the commission to release traffic figures to any interested party should be deleted.

The MacPherson Commission found the burden of passenger traffic deficits the most onerous of all those left on the railways, and recommended that the government of Canada should absorb this burden in declining measure for a period of five years. It also recommended that the government of Canada should bear the burden of the loss of rail passenger services found essential after this five year period.

Sections 314I and 314J empower the commission to determine whether or not a passenger train service is operated at a loss and, if the service is likely to continue to be uneconomic, to determine whether the service should be discontinued immediately or after a period. Provision is made for payments to the railways of an amount not exceeding 80 per cent of the loss on the service for the period it is required to be continued in operation.

We consider that the payment of only 80 per cent of a loss incurred as an imposed public duty is unjust and inconsistent with the third condition set out in clause 1 of the bill. Leaving 20 per cent of the burden on the railway overlooks the fact that any improvement in efficiency would serve mainly to reduce the amount of government payment while still leaving a burden on the railway from a losing service which it cannot discontinue.

As railways cannot apply for discontinuance of commuter services under section 314I nor file a claim for losses in respect of such services, it is essential that the bill provide that commuter rates be compensatory.

Cost determination will become of greater importance with the enactment of Bill No. C-231. The costing requirements of the bill are in conformity with the conclusions and recommendation of the MacPherson Commission. The commission found that the progress made in the science and art of costing was such as to permit the use of costs with confidence.

We agree that it should be the function of the commission to prescribe the items and factors relevant in the determination of cost as provided for in section

387B. It is to the advantage of all concerned that the commission be assisted by a strong costing staff and, if so, we believe that its decisions would be respected. We find that the guidelines in sections 387A and 387B are adequate. However, section 336 should be included in the group of sections referred to in subsection (1) of section 387A.

The requirement under section 387C that information concerning railway costs be treated as confidential is of vital importance to the railways in view of the competitive environment in which they now operate.

In volume I of its report released in March 1961, the MacPherson Commission recommended payments by the government amounting to \$97 million for the first year to compensate the railways for the services which it found to be a burden upon the railways. It recommended that the government discontinue all payments then made to the railways with the exception of those made under the Maritimes Freight Rates Act, the total payments to be discontinued amounting to \$27 million annually.

● (10.20 a.m.)

The commission concluded that financial assistance of this order was required at that time to enable the railways, as commercial undertakings, to assume their proper place in the increasingly competitive transportation environment.

Section 469 of the bill provides for "normal payments" of \$110 million in 1967, reducing at the rate of \$14 million a year and terminating at the end of 1974.

Payments in respect of uneconomic branch lines, uneconomic passenger train service, export grain moving at "At and East" rates and grain and grain products moving at statutory and related rates will not be made to the railways until such time as their aggregate exceeds the amount of the "normal payments".

The bill provides for the elimination of all payments authorized or now made to the railways by the government with the exception of those under the Maritimes Freight Rates Act. These payments for the year 1966 are expected to total \$110 million.

It can be seen, therefore, that there will be no improvement—

Mr. PICKERSGILL: (*Minister of Transport*): Excuse me, Mr. Crump, I think there is a grammatical ambiguity here. I do not think you mean that the payments under the Maritimes Freight Rates Act total \$110 million.

Mr. CRUMP: I am sorry. That was not the intention, Mr. Pickersgill.

Mr. PICKERSGILL: I would not want to think that the Maritimes Freight Rates Act was costing the taxpayers that much.

Mr. CRUMP: —in payments to the railways even in the first year after the enactment of the bill.

If Bill C-231 does not provide to the railways additional financial assistance over that which they now receive, where are the railways to find the money to pay the increased costs of operation and, in particular, the increased labour cost?

The railways have increased their competitive rates, have taken steps to increase agreed charges and they are prepared to apply further increases to the extent that they can remain competitive. With the exception of those relating to traffic in and out of the maritimes and within that area, the railways will be allowed to increase class rates and commodity rates—other than competitive rates—but the increases will have to be applied gradually. They will also be allowed to increase over a period of three years, commencing one year after enactment of the bill, the rates which had been reduced when the bridge subsidy became effective.

We can expect to participate in additional transportation to the extent of any general growth in the economy over the years and, within the provisions of the act, to compete more effectively.

There is no further technological improvement on the horizon for the railway industry that will permit improvements in operating efficiency comparable to those secured from dieselization. Nevertheless, we are hopeful that, unless artificial restraints interfere, we will achieve for some time in the future a steady but more limited improvement in operating performance.

After making allowance for additional revenues from freight traffic and the reduction in operating costs resulting from increased efficiency, we anticipate a deterioration in our net earnings in the first year after enactment of the bill. This situation can be expected to worsen in subsequent years with the annual reduction in the "normal payment" as provided in the bill.

As the MacPherson Commission pointed out, railways are and will remain for the foreseeable future the backbone of the transportation system in Canada. Railways cannot be expected to fulfill this role and provide economic and efficient transportation as envisaged by clause 1 of the bill if they are not financially sound.

A partial solution would be to provide for a smaller reduction in the annual "normal payments" and thus extend them over a longer period of time.

In the light of the national transportation policy set forth in Bill No. C-231 and the obligation which the new commission will have of co-ordinating and harmonizing the operations of all modes of transport, Air Canada should be subjected to the Aeronautics Act and to the regulation and control of the new commission in the same manner as other air carriers. This can be accomplished by appropriate amendments to the Aeronautics Act and the Trans-Canada Air Lines Act.

Respectfully submitted, Mr. Chairman and gentlemen, to the committee by the Canadian Pacific.

The CHAIRMAN: Thank you, Mr. Crump.

Mr. CRUMP: Before closing I would like to draw your attention to the last two pages of the brief, pages 33 and 34, itemizing a list of sections referred to in our submission and amendments proposed in respect thereof.

The CHAIRMAN: Excuse me for one moment, Mr. Crump. May I have a motion, please, that the main brief be printed as an appendix to our minutes and proceedings of today?

Mr. MCWILLIAM: I move that the main brief be printed as an appendix to today's minutes and proceedings.

Mr. PASCOE: I second the motion.

The CHAIRMAN: Does the motion carry?

Motion agreed to.

Mr. CRUMP: Mr. Chairman, I would also like to distribute at this time a short memorandum on railway freight rates prepared by Canadian National and the Canadian Pacific. It does not purport to fully cover the subject but does outline some of the fundamentals of what is recognized as a highly complex matter. We hope the committee will find it useful in its deliberations.

Thank you, Mr. Chairman and members of the committee.

The CHAIRMAN: May I have another motion please, to have this memorandum on railway freight rates submitted on behalf of Canadian National and Canadian Pacific printed as an appendix?

Mr. LANGLOIS (*Chicoutimi*): I move that the memorandum on railway freight rates submitted on behalf of Canadian National and Canadian Pacific be printed as an appendix to today's minutes and proceedings.

Mr. CANTELON: I second the motion.

The CHAIRMAN: Does the motion carry?

Motion agreed to.

Mr. CRUMP: Mr. Chairman, the minister has drawn to our attention language on page 11, section 57 that might be considered ambiguous.

● (10.30 a.m.)

For the record, could we strike out the first two words of the last sentence, "These payments" and insert "All payments, excluding those under M.F.R.A., for the year 1966 are expected to total \$110 million". I think that will clarify that section.

The CHAIRMAN: Thank you, Mr. Crump.

Mr. HORNER (*Acadia*): Under paragraph 60 in your summary you leave no doubt in my mind that it is your belief that freight rates generally will go up, and particularly with the passage of this bill.

Mr. CRUMP: Over a period of time, Mr. Horner, I believe that is inevitable.

Mr. HORNER (*Acadia*): This is true, but following paragraph 60 you point out the difficulty Canadian Pacific will be in because of the reduced subsidies, so one would believe that this particular bill is going to bring about or instigate some increases in freight.

Mr. CRUMP: Not immediately, Mr. Horner, because this must be done over a period of time. I think you must bear in mind that the class and non-competitive commodity rates have been frozen in Canada since March 1958. This is a period of eight and a half years. Naturally, we could not preemptorily increase rates with the passage of this bill. It would have to be done on a gradual basis and with a good deal of judgment.

Mr. HORNER (*Acadia*): Oh, yes. I never for one minute would suggest that you or the CPR would do anything without a good deal of judgment. I also know that any increase in freight rates must be done on a moderate scale. I

admire your frankness. What we are saying here and in paragraph 60 is that freight rates are going to go up, and then in the following paragraph you point out that even with freight rates going up you are still going to be in difficulty because subsidies are reduced. Am I right?

Mr. CRUMP: With the increase in costs that we have been confronted with over the past eight years, I see no other recourse.

Mr. HORNER (*Acadia*): In coming to that conclusion, at least, we are relatively agreed. Under what rates do you feel you are going to be most able, using your considered judgment, to increase your freight rates? Under what type? Are you suggesting commodity rates, class rates?

Mr. CRUMP: On the broad basis we have already, or are in the process of introducing increases in the competitive rates and the agreed charges within the period of time allowed under the agreed charge agreement, but there must be increases in the class rates and the non-competitive commodity rates.

Mr. HORNER (*Acadia*): There must be increases in them, too.

Under clause 336 what protection do you envisage this gives a person now shipping goods under the non-competitive rates?

Mr. CRUMP: The definition of the captive shipper is contained in the bill but, if I may, I will ask Mr. Sinclair to answer that question.

Mr. I. D. SINCLAIR (*President of Canadian Pacific Railway Company*): Mr. Horner, the protection that is given to shippers who are using so-called non-competitive commodity rates is the fact that the goods have to move freely or the railways will be cutting their own throats. This is the greatest protection they have got in any economy and they have it completely. You also have to remember that these words "commodity rates", "normal commodity rates", or "commodity rates (not being competitive rates)" are words that come out of the act of 1959. Included in normal so-called commodity rates are rates that competitive factors fix. All normal commodity rates are not truly rates that are made without any reference to competition. Many of them reflect competitive factors.

So, when you come to the balance, and that is the person who has no other alternative, and these are the shippers that are covered by clause 336, it is extremely difficult to find out who they are. This is more of a psychological thing than it is a factual thing in the light of today's conditions. For example, a potash shipper certainly is not in the category covered by clause 336. Potash rates, for example, out of Saskatchewan are related to the movements from Carlsbad to Long Beach.

Mr. HORNER (*Acadia*): What do you mean under paragraph 20 of your summary where you say, "Section 336 providing for maximum rates for captive shippers covers the situation where the railway may exercise a monopoly."

Mr. SINCLAIR: "may", yes. Wherever it is.

Mr. HORNER (*Acadia*): Yes. Now this is an interesting word, "monopoly", and it says "the railway may exercise a monopoly."

Mr. SINCLAIR: That is what the Macpherson Royal Commission said, and that is what the legislation says.

Mr. HORNER (*Acadia*): Yes. I notice you have it in your brief. Here is the situation I am trying to clear my mind on. You say it is difficult to find a captive shipper.

Mr. SINCLAIR: I would think so.

Mr. HORNER (*Acadia*): What you are saying is that clause 336 offers no assurance to the given area that I may represent.

Mr. SINCLAIR: Mr. Horner, the fact you might feel you are something you are not surely is not something you want to have protection from.

Mr. HORNER (*Acadia*): Well that is a nice bit of advice. Let us go back to your paragraph 20. What do you mean by the words "exercise a monopoly"? You mentioned potash. If there was only one railroad hauling that potash, and if potash cannot economically be hauled by truck, then you have a monopoly in the movement of potash.

Mr. SINCLAIR: Mr. Horner, you do not have a monopoly for the movement of potash because you have alternative sources of supply that you have to take into account to let the potash move from Saskatchewan, and if you understand how the rates are fixed you will find that potash rates and sulphur rates in western Canada are all reflecting alternative sources of supply factors.

Mr. HORNER (*Acadia*): Let me try another commodity. For example, the movement of livestock from western Canada to Ontario. This is just about to start; in fact, it is under way right now.

Mr. SINCLAIR: Yes, Mr. Horner.

Mr. HORNER (*Acadia*): What per cent of the livestock would you suggest is moved by rail?

Mr. SINCLAIR: I would not know, Mr. Horner, but I do know this; that the movement of livestock from western Canada to the feed lots, let us say, in the Bruce peninsula is a very highly competitive operation. It is certainly not tied to rail. There are large trucks that are specially constructed for the movement of livestock that bring them down and there are operations by truck. Coming from sunny Alberta, I am sure you know that the railways have to stop their movement of livestock from Winnipeg to the Bruce peninsula for the Toronto market, and unload and feed them and the trucks will bring them down non-stop. This is the competitive aspect.

Mr. HORNER (*Acadia*): Yes, but it is my belief, although it is difficult to ascertain any figures on it, that 90 per cent of the livestock still moves by rail.

Mr. SINCLAIR: Oh, no, Mr. Horner, certainly not. You are forgetting—

Mr. HORNER (*Acadia*): I said this particular phase of the livestock industry from west to east.

Mr. SINCLAIR: I would not agree with you. You are miles off.

Mr. HORNER (*Acadia*): Miles off. I do not think so at all.

● (10.40 a.m.)

Mr. SINCLAIR: Years ago, Mr. Horner, we had solid stock trains coming down, and they do not come down like that now. All you have to do is go

around the Toronto stockyards and talk to the drivers and look at the licence plates on the trucks. Have you ever done that?

Mr. HORNER (*Acadia*): I have not been at the Toronto stockyards, but I have visited a few stockyards.

Mr. CRUMP: I do not have statistics on it, Mr. Horner, but when I worked in the west we had an eastbound freight train which we called a stock train. That disappeared long ago.

Mr. HORNER (*Acadia*): I still believe that I am right in my percentage estimate, but I was using livestock for the purpose of explaining the difficulty. Here is a commodity which is not moving 100 per cent, and no protection can be proven under this captive shipper clause unless it is.

Mr. SINCLAIR: Oh, yes, Mr. Horner. For many, many years livestock rates from the west to the east have been controlled by competitive factors. This includes time in transit, shrinkage, and—

Mr. HORNER (*Acadia*): What about farm machinery moving west from the east?

Mr. SINCLAIR: For many years farm machinery moving west from the east, was even badged "competitive."

Mr. HORNER (*Acadia*): Was what?

Mr. SINCLAIR: Was "badged" competitive. That means that it was carried in a competitive tariff.

Mr. HORNER (*Acadia*): How is it carried now?

Mr. SINCLAIR: It is carried in a normal tariff; but, once again, you have to look at the relationship from Indiana, Chicago, as against Brantford.

Mr. HORNER (*Acadia*): Suppose the farm machine industry said—and Massey did, when we had this before the Agricultural Committee—"Unless we can get a proper freight rate we are going to move our plant to the United States, because it is closer to the midwest United States and closer to western Canada, where the farm machinery is bought." How could the farm machinery industry, since they could not guarantee that 100 per cent of their production would go by rail, under clause 336 of this bill, receive any protection?

Mr. SINCLAIR: They could not?

Mr. HORNER (*Acadia*): No.

Mr. SINCLAIR: Of course they could. We have all kinds of people, Mr. Horner, who have entered into 100 per cent agreed charges.

Mr. HORNER (*Acadia*): Oh, yes; individuals.

Mr. SINCLAIR: No, no; large groups of shippers. You are under a misapprehension about this thing. If the farm machinery industry—let us take Massey-Ferguson, or let us take Case, or whom you wish—

Mr. HORNER (*Acadia*): They are now shipping under class or non-competitive rates. Am I right in that assumption?

Mr. SINCLAIR: Yes, you are quite right about that. If they wanted to come under here what they would ask for is a determination of a rate. You have to be

very careful about this, because a lot of farm machinery does not even load 30,000 pounds. I guess you know that, but some of the other members of the Committee do not know it. Therefore, you have to work your factors rather carefully, and I would suggest to you that they would not come under clause 336, but that they might ask for the range, to take a look at it.

Mr. HORNER (*Acadia*): They might ask for protection?

Mr. SINCLAIR: They could, if they wished.

Mr. HORNER (*Acadia*): What I am asking is: What protection would they get?

Mr. SINCLAIR: Then they would get the variable cost, plus 150 per cent on 30,000 pounds.

Mr. HORNER (*Acadia*): You feel, as a railroader, in the business of transportation, that the 150 per cent is necessary, plus the variable cost?

Mr. SINCLAIR: Oh, very definitely so.

Mr. HORNER (*Acadia*): Even if you were assured by the Farm Machinery Manufacturers Association, or such a group as that, that you would get 100 per cent of their business.

Mr. SINCLAIR: Yes, very definitely.

Mr. HORNER (*Acadia*): You still feel that you would have to have 150 per cent above the variable cost?

Mr. SINCLAIR: Mr. Horner, we have agreed charges which provide for up to 100 per cent, and the relationship of the rate in regard to the variable cost exceeds 150 per cent over the variable cost, and the shipper is very anxious to sign that agreed charge at that rate.

Mr. HORNER (*Acadia*): I noticed in the costing study which was given to us that the figures on variable cost worked out to 70 per cent and that your fixed or unrelated costs amount to 30 per cent. Am I right?

Mr. SINCLAIR: As a rough general average.

Mr. HORNER (*Acadia*): And this pretty well covers your operation.

Mr. SINCLAIR: As a generality I would accept the 70 - 30 per cent relationship.

Mr. HORNER (*Acadia*): I am not trying to pin you down; but here we have the whole farm machinery industry, which sells something like \$200 million worth of farm machinery in western Canada nearly every year, and they are moving under class and non-competitive rates now. You say it is going to be necessary to charge 150 per cent above the variable cost?

Mr. SINCLAIR: Mr. Horner, if the rate which we are now quoting them, or which we would quote them, were less than that, then, of course they would not take advantage of clause 336 of the bill. If it were higher, then they would. I would suggest to you that some of the rates may be higher, but others, I know, would be definitely lower.

Mr. HORNER (*Acadia*): Let us get right down to brass tacks. I am a farmer. I do not want my machinery to go up in price. You say, under paragraph 60,

that freight rates are going to go up. Mr. Crump and I agree that this is what you are saying. Mr. Crump said that they may well go up on class and noncompetitive rates, because those have been frozen for eight years. Mind you, they will go up moderately and with wise and shrewd judgment on how much and when.

They are going up on these rates. I say that you have corralled the farm machinery industry in my hypothetical case. In other words, it is going to ship by rail through your railway.

Mr. SINCLAIR: We have not corralled them, Mr. Horner. The farm machinery industry—

Mr. HORNER (*Acadia*): But in this hypothetical case that I said we had—

Mr. SINCLAIR: I would rather deal with facts.

Mr. HORNER (*Acadia*): I am trying to deal with facts, and I want them fully explained to me. Maybe it will take a long time to get them explained.

Mr. SINCLAIR: I will try.

Mr. HORNER (*Acadia*): The point I am trying to make is: I know that freight rates are going up. You have already told me that. I am trying to seek some protection under clause 336 of this bill.

Mr. SINCLAIR: You will get it.

Mr. HORNER (*Acadia*): I will get it to the extent of 150 per cent above variable cost.

Mr. SINCLAIR: But, Mr. Horner, he will get the protection from competitive modes of transportation, he will get the protection from other sources of supply and he will also get the protection of clause 336. Therefore, he has got market protection, he has competitive protection, if he wants to use it—

Mr. HORNER (*Acadia*): No, not on this particular commodity, because it is now moving under class and non-competitive rates.

Mr. SINCLAIR: I told you, Mr. Horner, that I would think that many of the people you are thinking of would not qualify at all, because they could not prove that they had no effective basis. You are thinking about a combine, I think.

Mr. HORNER (*Acadia*): What you are saying now is that the ones I am concerned about would not qualify under this clause, and then you are saying that this clause is giving me no protection whatever.

Mr. SINCLAIR: For instance, people moving tractors such as International Harvester, or Massey-Ferguson, can move by truck and have moved by truck, and the rates which are now in effect reflect that competition. Large combines, which do not load heavily and which require specialized equipment, are moving by rail, and they would likely be able to come within clause 336, if he could show that an alternative source of supply was not such as to exclude it; and if it excluded it, then the rate would be held down, not by 150 per cent but by market factors.

Mr. HORNER (*Acadia*): I have one more short question. I would like to apologize for taking up so much time.

I do not think you are setting my fears at rest at all, but I am stubborn and I do not think you can.

I would like to ask you this: Where did the 150 per cent come from? Whose idea was this? Was it the railroad's? Did you say to the drafters of Bill No. C-120, or the drafters of this bill, that you recognize the fact, in all of your costing analysis, that 30 per cent above variable costs would cover the unrelated costs, but if they were going to put a protection in there at all, they should give you lots of room, and make it 150 per cent? Where did this figure come from. Do you have any idea at all?

● (10.50 a.m.)

Mr. SINCLAIR: Oh, yes; it came out of the studies which were made by the royal commission. It was a figure which they evolved after taking a look at all the factors. You cannot, Mr. Horner, on any kind of a basis, take a generality of a 70-30 relationship and then apply it as you have tried to do it.

Mr. HORNER (*Acadia*): Exactly; but 150 per cent above variable costs may well apply to a small piece of goods shipped only once in a long while, but on your large shipment, shipped relatively often, I think 150 per cent offers no protection whatsoever.

Mr. SINCLAIR: Mr. Horner, I think that every body who studied this came to the conclusion that a large shipper, who was shipping a large volume of goods in a relatively equal sequence would never make use of the captive shipper provision. He has other protections which are much greater than any the law can give.

The farm machinery industry, you know, Mr. Horner, have not been people with whom we have found it too difficult to arrive at arrangements.

Mr. HORNER (*Acadia*): I do not know a thing about the farm machinery people. I used that just as an example.

I will pass now, Mr. Chairman. You can put my name down and come back to me later.

Mr. ALLMAND: Mr. Sinclair, I would like to pursue the same point which Mr. Horner was questioning you about. In section 20 of your summary it seems to me that you attempt to put on Section 336 a definition, or an interpretation, which is not correct. You use the word "monopoly", and the word "monopoly" is not used in Section 336.

Mr. SINCLAIR: The only way I know of describing a monopoly is where there is nobody else with an effective, alternative, or competitive, service. I think that is coming very close to it. We were trying to make it short.

Mr. ALLMAND: Excuse me; it seems to me that Section 336, when it says that "a shipper of goods for which in respect of those goods..."—and that means those types of goods—"...there is no alternative, effective and competitive service..." could mean that between two shipping points you may have alternative types of transport—you may have trucking and you may have air freight—but although they are alternative they may not be effective and competitive.

Mr. SINCLAIR: Correct; it is conjunctive. You have three areas.

Mr. ALLMAND: Therefore, so you would admit that between two shipping points there could be alternative types of transport, but that they may not be effective and competitive with particular types of goods. Would you agree to that, sir?

Mr. SINCLAIR: Would it assist you, Mr. Allmand, if we used the word "effective" monopoly. Let me give you an example—

Mr. ALLMAND: It would, because—

Mr. SINCLAIR: All right. I think I would accept that—"effective monopoly".

Mr. ALLMAND: Would you agree to the question I put, that between two shipping points you can have alternative means of transport, but that they may not be effective for, and competitive for, particular types of goods. Would you agree to that?

Mr. SINCLAIR: Certainly; let us take a good example. We might be able to get somebody like Mr. Horner, who could carry a sack of grain across the mountains on his back, as an alternative to the movement of grain by rail. I would not call that a competitive, or effective, way of moving grain to Vancouver.

Mr. ALLMAND: The term "monopoly" that you use sir, seems to indicate that there would be no other type of transport at all.

Mr. SINCLAIR: I am sorry. I accept the point you have made. It would be clearer to put it, in the economic sense as effective "monopoly".

Mr. ALLMAND: Fine.

Mr. CRUMP: I think that is a good point, Mr. Allmand, because to anyone who follows transportation closely there really is nothing in this country which is a monopoly to the railway, at its cost. I believe this is the point that you are raising.

Mr. ALLMAND: The person who would claim to be a captive shipper would have to establish this before the board.

That is all, Mr. Chairman.

Mr. BELL (*Saint John-Albert*): With respect to this word "effective", it is weak in so far as the railways are competing in the other modes of transport.

Mr. SINCLAIR: Weak?

Mr. BELL (*Saint John-Albert*): Yes.

Mr. SINCLAIR: I do not understand that Mr. Chairman. I do not understand what Mr. Bell means when he says the word is "weak".

Mr. BELL (*Saint John-Albert*): It was the example you gave when you were speaking to Mr. Horner about the long haul across the country. You suggested—I have forgotten whether it was with respect to farm implements, or not—

Mr. SINCLAIR: Oh, he could not carry any farm implements. I gave him a sample of wheat.

Mr. BELL (*Saint John-Albert*): But the truckers would be this type of effective, alternative competition which you suggest.

Mr. SINCLAIR: In certain areas.

Mr. BELL (*Saint John-Albert*): How do you explain the fact that you have a trucking firm involved in this type of transportation? The fact that you people are competing in the long-term trucking business yourself reduces, I consider, a part of the definition of the word "effective".

Mr. SINCLAIR: Mr. Bell, you have misunderstood the situation, if I may suggest that. Take, for instance, Canadian Pacific. It has truck lines, of course, but the proportion of the movement of goods by truck which is handled by companies which Canadian Pacific controls is very, very small indeed. You always have to remember this, that there is a lot of private trucking as well as common carrier trucking. If we controlled all the trucking in Canada—say, we owned it 100 per cent, and it was all franchise—then I think your point is sound; but it is not, and I would say, that, while Canadian Pacific has a very large trucking investment, its proportion of the total truck movement is well below 10 per cent. We are very small in light of the whole size of the situation.

Mr. BELL (*Saint John-Albert*): In other words, you do not know of any examples where the alternative effective mode to the railways would be only your own trucking.

Mr. SINCLAIR: No, no.

Mr. OLSON: Mr. Chairman, Mr. Sinclair said a few minutes ago that in discussing this bill he liked to deal with facts. I agree that this is a commendable statement. I wonder if you have made any calculations, using the formula set out in Section 336, to find out what the resulting maximum rates would be?

Mr. SINCLAIR: Yes, we have made calculations.

Mr. OLSON: And how do these results compare with the rates in effect now?

Mr. SINCLAIR: There are some one way and some the other. As I have said so many times, I know of no one—no one—whom I can say comes within Section 336. I do not know of any shipper who comes within that section, because while there would have been quite a number of them perhaps 10 years ago, I really know of nobody today. I cannot think of one. I say that the whole thing has a very large psychological field. I am not saying that there are not some which exist—do not misunderstand me—but I do not know who they are.

Mr. OLSON: You said that you had done some calculations.

Mr. SINCLAIR: Yes; just to see how it works.

Mr. OLSON: Yes; well, in keeping with your statement that you like to deal with facts, I wonder if we could have some of these facts with respect to—

Mr. SINCLAIR: I would like to give them to you, Mr. Olson, but you have to remember this, that in the traffic management field we are dealing with a very sophisticated people and we have to negotiate with them. They will not give me their costs but they would certainly like to get ours. I would then be fighting them with one hand tied behind my back. Let me give you an example, Mr. Olson: Let me deal with Imperial Oil. Imperial Oil will say: "Let us have some of these rates on greases or tanks." Even if I give you any kind of rates they can use them and build a framework that will give them costs. And then they say, our private trucking costs, our alternative mode, is so and so. We ask them

to give us the background, and they say they will not do that. Why should I be in a position of trying to negotiate with Imperial Oil with them having all the facts and us having none?

● (11.00 a.m.)

Mr. OLSON: Those very sophisticated people that you are referring to were here yesterday, Mr. Sinclair.

Mr. SINCLAIR: Were they?

Mr. OLSON: Yes, from the Canadian Manufacturers' Association, and they indicated to us that on the basis of some factors and facts they could gather—not necessarily your variable costs because they are not available—that a shipper who is shipping iron ore, for example, on an established rate at the present time of \$2.68 per ton, would pay \$14.64 per ton, if the maximum rate formula under 336 were applied. That makes this a completely fictitious and useless protection, does it not?

Mr. SINCLAIR: No, no, Mr. Olson. And if you tell me they were sophisticated and gave you that example, I am surprised, because iron ore is certainly market oriented in rates. Just think of it.

Mr. OLSON: I am not questioning that, because there is a rate here of \$2.68 in one case, \$3.70 in another case, and \$1.46 in another case. I am not suggesting that, but what I am talking about is what would the result be insofar as the maximum rate is concerned if the formula set out in 336 was used to calculate that maximum rate formula?

Mr. SINCLAIR: But the maximum rate formula would never be used to calculate the rate on the movement of iron ore. That man would negotiate, as he has down through many, many years, with the railways for a rate that would move the traffic in relationship to other sources of supply.

Mr. OLSON: You mentioned this "other sources of supply". You are suggesting to this Committee, then, in setting up a new maximum rate formula the legislation, which is the only protection that will be available, must include this alternative source of supply, which may be overseas, in the United States or some place else?

Mr. SINCLAIR: No, but Mr. Olson, the point is this. Let me give you an example, if I may. Let us take the movement of iron ore from the Mesabi range into the steel mills as against iron ore from northern Quebec, Labrador, through Contrecoeur if you like, into the same thing, or going all water to Baltimore. Now the rate is going to reflect what will move that iron ore and make it saleable. Otherwise, the railway will not get any traffic.

Mr. OLSON: But supposing that you apply this formula, and you come up with something like \$14.64 a ton.

Mr. SINCLAIR: They would not do it.

Mr. OLSON: But, surely it is in the national interest to keep the iron ore coming out of Canada, and it is not up to the railway to determine whether or not it is in the national interest. There is no protection here at all.

Mr. SINCLAIR: But Mr. Olson, the shipper of that iron ore has greater protection than any legislation can give him. He has economic sanction against the fellow who has fixed investment. What greater protection can anybody have? Economic sanction is the greatest protection in the world.

Mr. OLSON: There seems to me that there should be some kind of protection, if we are going to be responsible lawmakers, to see that Canada's economic establishment expands and is not inhibited by maximum rates that may be established that would be four or five times what a reasonable rate would be.

Mr. SINCLAIR: Mr. Olson, I am sorry. No railway would fix a rate for the movement that you have in mind under the maximum rate formula because they would know that the traffic would not move.

Mr. OLSON: Alright, I will accept that, that no railway would do it. But if you applied the provisions of 336 they could do it, could they not?

Mr. SINCLAIR: No, they could not do it, because the economic sanctions would make it foolhardy for them even to consider it.

Mr. OLSON: You are throwing in a whole lot of other factors here that I am not talking about at the moment. You are talking about what the negotiated rate may be. Might I suggest to you that would be likely and particularly in the case of heavy commodities such as iron ore, and so on, that is true. But what I am trying to get at is what, under the law, would be the maximum rates that would be set if you applied your variable costs and used the calculations allowable under 336 and then come out with a rate?

Mr. SINCLAIR: But you see, the rate under the law for the movement of iron ore would give effect to other sources of supply. Let us go back to potash which apparently has been discussed here. The Canadian Pacific Railway Company has a very large investment in covered hopper cars and in other specialized cars such as box cars for the movement of potash. If it ever put potash on the basis of a captive rate on 150 per cent of variable costs, what would they do with all their investment in this equipment? Throw it away? Of course not. So, as I say, the economic sanction that that shipper has is the greatest protection he can get. And that is provided for under the law.

Mr. OLSON: I think I would like to pursue this further, but I am very severely restricted by time. I would like to turn to another point. The basis would be the variable costs on 30,000 pounds plus 150 per cent. On iron ore, for example, do you ship any of that in 30,000 pound cars?

Mr. SINCLAIR: Of course not.

Mr. OLSON: Do you ship any potash in 30,000 pound cars?

Mr. SINCLAIR: Of course not.

Mr. OLSON: Then it is a completely fictitious load limit so far as these two commodities, at least, are concerned?

Mr. SINCLAIR: No, no, Mr. Olson. The reason 30,000 pounds were taken is because that was the closest approximation to a truckload. It was to equate and to put the person who did not move his traffic by truck in the position where, as

nearly as may be, there would be a factor if he did have truck transportation. That is where the 30,000 pounds came from, and it is a reasonable one.

Mr. OLSON: But it has no relation to a whole lot of commodities that do not move by truck and never will move by truck—

Mr. SINCLAIR: And which are not captive shippers of the railway. I agree with you.

Mr. OLSON: Of course, that depends on the definition of what a captive shipper may be.

Mr. SINCLAIR: That is in the legislation.

Mr. OLSON: It is an impossible definition to apply to the commodities that we have been talking about.

I wonder if we could turn to paragraph 50 in your summary, where you say that the cost determination will become of greater importance with the enactment of Bill No. C-231, and then you go on to say that there are techniques developed now that will permit the use of costs with confidence. Section 337 (a) of the new Bill includes the allowing of the cost of money to be included in variable costs.

Mr. SINCLAIR: Yes sir.

Mr. OLSON: Does this mean that you are allowed a cost of money factor of 3.87 per cent, that was allowed by the Board of Transport Commissioners.

Mr. SINCLAIR: Yes, that was fixed many, many years ago.

Mr. OLSON: I think it would probably be a little higher today.

Mr. SINCLAIR: Well, I would certainly think so because from reading the papers I see that the rate on guaranteed investments called Canada Savings Bonds is very much higher than 3.87 per cent.

Mr. OLSON: If this were allowed, let us say, at 5 per cent today and this includes the cost of all equipment involved in the transport of whatever commodity is in question, it gives you a return on the invested capital, whether it is borrowed or not, that gets into your cost factors, does it not?

Mr. SINCLAIR: Yes, but you see the way that you calculate a cost of money factor to arrive at an established dead equity ratio and then you extrapolate from that. The dead equity ratio is calculated in the light of volatility studies. These are well-recognized techniques and are used by regulatory tribunals throughout the world. For instance, in your province Mr. Olson, your energy board that fixes the rates on gathering lines and pipelines works on a cost of money factor, and they determine dead equity ratios and then extrapolate from there. I think their cost in Alberta now is 7 per cent on pipelines and gathering lines, and that is net, after tax.

Mr. OLSON: Yes, but after you have included this as a cost factor you already have a return on investment, do you not?

Mr. SINCLAIR: Well, of course, the cost of money provides for the return that is determined by these techniques that I am mentioning.

Mr. OLSON: There is another question that I was going to ask you, and you know what it is already. You do not need to show a net profit if you already have a return on investment in costs, do you?

Mr. SINCLAIR: Of course, Mr. Olson, we are talking here, I think, about variable costs and the cost of money factor in variable costs,— and you have to replace capital that is destroyed through use. In variable cost it is that proportion of road or that proportion of equipment that is worn out in performing the service. It is not in any sense fixed and it has to be replaced if it is worn out by carrying the goods.

● (11.10 a.m.)

Mr. OLSON: Oh, I thought these things were usually covered by an item called depreciation.

Mr. SINCLAIR: Depreciation only returns the original cost. We do not revalue assets and change our depreciation rate to recover present costs.

Mr. OLSON: If you recover depreciation on the original investment then you recover costs of investment on cost of money, and then on top of that you ask for a profit over and above all of these cost factors. It seems to me we have a return on investment; we have three positions here—

Mr. SINCLAIR: We have an accountant here, Mr. Olson, and you and I have talked about this before. Mr. Nepveu is knowledgeable in accounting and such matters, and perhaps he can do this with a great deal more precision than I can, so we will let you have a professional.

Mr. OLSON: My problem is that I am going to run out of time.

The CHAIRMAN: Mr. Olson, we can come back to you.

Mr. ANDRAS: Mr. Crump and Mr. Sinclair, on page 3 of your summary, in paragraph 13 you make a general statement in the nature of a warning, I think. It says, "It is important that care be taken that the study and research function of the commission does not become confused with its regulatory function" and so on. Could you elaborate on just exactly what you are afraid of here and what you are getting at here?

Mr. CRUMP: Well, in this case, Mr. Andras, it is simply that in the past the Board of Transport Commissioners had no real research function. I have believed that transportation as a whole—not railways but transportation as a whole—is going to require a great deal more research than has been given to it in this country. Some other countries are doing far, far more than we are. Now, this function is being given to the new commission and at the same time they have a regulatory function. The research will, of course, be of aid to them but I do not think the two mix. Research is a separate science that, no doubt, I would imagine, would be dealt with by a separate section of the new commission and will not impinge on the regulatory section.

Mr. ANDRAS: You are not, then, suggesting that results or the conclusions of the research would not be used.

Mr. CRUMP: Oh, by all means, not only by the regulatory section of the commission but I would hope by the transportation industry as a whole in Canada.

Mr. ANDRAS: But your warning here is not to downgrade or confine the research.

Mr. CRUMP: Not by any means. I happen to be one who believes that we have far, far more research to do with the whole transportation question in this country because it is getting to be a pretty mixed bag of tricks, with the alternate forms of transportation that are available and may become available. Now, if this country of ours is going to benefit, as we state here, from the lowest possible cost of transportation—and we are going to have to do that if we are going to survive in this competitive world in which we live; and I am speaking of the world and Canada—then, I think, this country has to do a tremendous amount of research on this problem. This function is primarily being given to the commission. Perhaps there are other things we should be doing. To the best of my knowledge, for instance, I do not think there is a chair of transportation in the universities in this country. Here is a field which could well be explored further and I would think that the commission will explore this. No, I am not trying to downgrade research at all.

Mr. ANDRAS: You are expressing some uneasiness here.

Mr. CRUMP: Do not get the two mixed up.

Mr. ANDRAS: To extend that further into a positive recommendation, would you go so far as to suggest that the research agency, whatever it may be, be separated in so far as control of reporting from this national transportation commission?

Mr. CRUMP: No. I like to think of it in relation to our own company. We do a good deal of operational research and some of the results of that research flow to Mr. Miller's department but the two are not combined. They are quite separate, and this must be so if you are going to obtain the best results.

Mr. ANDRAS: I still do not know whether you are saying what I think you are saying, which is to imply that there might be a better way to establish this research group, the one referred to in the Act.

Mr. CRUMP: No. I am delighted to see this in the Act.

Mr. ANDRAS: And you still think it should be under the direction of the national transportation commission rather than a separate research body like the National Research Council reporting to it?

Mr. CRUMP: Yes, by all means, because in that group, over a period of time, you will have developed quite a large number of very knowledgeable people in the transportation field, so that it can function best here.

Mr. ANDRAS: Thank you.

Mr. HOWE (*Wellington-Huron*): Mr. Chairman, I was very interested in the reply that Mr. Crump gave to Mr. Horner when he asked him about the disappearance of the \$100 million or so of subsidy that will disappear gradually, with a diminishing subsidy year by year. I was very much interested to hear you say that this would eventually mean an increase in freight rates. Is this true?

Mr. CRUMP: Well, it must necessarily be true, I believe, Mr. Howe, because we recover our costs, and these costs are steadily rising. Mind you, there is the

factor of productivity always to be taken into account and increased efficiency in which we hope we will continue to make strides. But, as I mentioned, the largest single increase in efficiency that I can recall in any industry in such a short time and so wide spread was in the railway industry in dieselization. I see nothing on the horizon comparable to that. The computer field is just as interesting and even more so, and probably over the years it will develop significant savings, as it already has. But I do not see any large technical breakthrough and costs are steadily rising. If we are to stay in business we must recover our costs.

Mr. HOWE (*Wellington-Huron*): I agree with you, Mr. Crump, in this regard because, after all, we do feel that if the new increase in wages is going to be considered a subsidy and if it were carried forward it would be a lot more than \$100 million. But this just does not disappear into thin air; the people of Canada pay it by taxation or they will pay it in increased costs of freight rates, which affects the cost of living of everybody in Canada. It is rather interesting that when I asked the same question of Mr. Gordon he said that in view of the fact there was going to be so much more business and due to the fact that they were going to be relieved of the controls they have had for so many years, that they did not expect there would be any increase in freight rates. Now, if they do not increase theirs and you have to increase yours, you are going to be wiped out of business.

Mr. CRUMP: We certainly shall.

● (11.20 a.m.)

Mr. SINCLAIR: It is a good thing Mr. Gordon is leaving at the end of the year.

Mr. HOWE (*Wellington-Huron*): It is rather interesting to know that a crown corporation is so much more efficient than a private corporation.

Mr. CRUMP: That is going to cause us to pull up our socks, I am afraid.

Mr. HOWE (*Wellington-Huron*): There is another phase of this railway business that I am rather interested in. In connection with all this costing that is going on, we hear that you are very conscious that your opposition will not learn about your figures and the figures that you use in your costing. Still, we understand that Dr. Bandeen worked with you in preparing costing figures and he is the expert from the CNR?

Mr. CRUMP: Dr. Bandeen may I say, is an expert, period, in costing and it is another competitor within the same mode. You must bear in mind that ultimate judgment on costing will be made under this bill by the commission, and since there are only two major railways in Canada, in the production of the techniques, and they are getting highly sophisticated, we help each other all we can. I think this is and will be to the benefit of the commission when it is formed and begins to work on costing.

Mr. SINCLAIR: I think Mr. Howe has overlooked the fact that we are in a little different position. The industry works on common pricing here by statute, and so we exchange cost information and techniques within the industry because we work on common pricing and so we are quite prepared to work out

techniques and to discuss—our people—with Dr. Bandeen, Mr. Nepveu, Dr. Romoff and Dr. Stenason, we do this all the time. We have a common rate.

Mr. NEPVEU: I think, Mr. Howe, that Dr. Bandeen said that the principles of costing were the same for the two companies. This presentation has been prepared jointly and the costing techniques are very similar but I think you mentioned that the costs were not necessarily the same and that he did not see our costs.

Mr. HOWE (*Wellington-Huron*): Gentlemen, we have had some very outstanding cases before that have infringed the Combines Investigation Act. We wonder whether the railroads may not—

Mr. SINCLAIR: The Combines Act does not apply, Mr. Howe, because of the statute.

Mr. HOWE (*Wellington-Huron*): —I know it is very difficult to get definitions of non-competitive and competitive freight rates and it is rather interesting to note that the competitive freight rates bring a bigger revenue per ton mile for the railroads than the non-competitive.

Mr. SINCLAIR: That is not surprising at all, Mr. Howe.

Mr. HOWE (*Wellington-Huron*): I would imagine that in most cases competitive selling reduces the price and does not bring as big a return to those that are in the business unless there is some infraction of the combines legislation.

Mr. SINCLAIR: It reflects a number of factors; it reflects type of equipment, loading characteristics, value of goods, length of haul, all those kinds of things. You see, the non-competitive groupings are what we call the normal commodity rates. The large proportion of that is low-cost, heavy loading bulk commodities. In the competitive area you will find a lot of shorter haul traffic, a lot of manufactured goods, a lot of light loading commodities—all these things reflect the revenue per ton mile.

Mr. HOWE (*Wellington-Huron*): It still returns more money to the railroad than the bulk hauling.

Mr. SINCLAIR: It may or it may not. You see, revenue, Mr. Howe, is only one side of the equation. There is a cost on the other side and for a lot of these commodities that are moving at competitive rates, the cost of moving them is much greater.

Mr. HOWE (*Wellington-Huron*): You take that into consideration, of course?

Mr. SINCLAIR: Yes. That is all taken into consideration.

Mr. HOWE (*Wellington-Huron*): Can you give me the figures, for instance, on the difference between a net cost that you have from non-competitive per ton miles and competitive ton miles?

Mr. SINCLAIR: Some of our competitive rates are the best kind of traffic we get from a revenue standpoint. It goes all the way from the worst that we have got, which is known as Crowsnest pass grain traffic, to the best that we have got which I would say would be a very highly sophisticated type of machinery and durables in the manufactured realm.

Mr. HOWE (*Wellington-Huron*): You did not answer my question. What is the difference in the net profit?

Mr. SINCLAIR: I am not talking net.

Mr. HOWE (*Wellington-Huron*): Can I have percentages?

Mr. SINCLAIR: I have a minus percentage on grain to a plus percentage that might be as much as 100 per cent.

Mr. HOWE (*Wellington-Huron*): I am taking the over-all picture of your freight-carrying business. You have a figure down here, revenue per ton-miles is \$1.50 for non-competitive and \$2.50 for competitive. In the over-all freight rate returned in money you get back from your freight business, what is the percentage of your revenue from a non-competitive rate and a competitive?

Mr. SINCLAIR: Would you mind reading these as cents and not dollars? It is 1.5 cents, not \$1.50. We would not be quite as concerned if it was up where you had it.

Let us take here the percentage of revenue. You are asking for percentages of net. Obviously, Mr. Howe, we have to get out of our freight traffic other than grain, all the revenues we earn plus enough to take care of the loss on moving grain plus what we lose on passenger traffic and so the freight traffic is what carries the railways.

Mr. HOWE (*Wellington-Huron*): You know, in the over-all picture, what it costs you to carry a ton of non-competitive freight.

Mr. SINCLAIR: Yes, but what is in it; what kind of traffic; how far is it going; what kind of a car is it going in; does it come to us in multiple car lots; does it come to us singly? What kind of switching problems have we got, how far do we have to move it from our yards, can we hump it? If you answer all these questions, then I can give you an answer.

Mr. HOWE (*Wellington-Huron*): If you can figure out that it is 1.5 cents revenue per ton a mile—

Mr. SINCLAIR: No, that is on the average of all the whole mix that is in there.

● (11.30 a.m.)

Mr. HOWE (*Wellington-Huron*): Can you not give me the average of all the costs?

Mr. SINCLAIR: How can I? Average all the costs?

Mr. HOWE (*Wellington-Huron*): If you can average the revenue—

Mr. SINCLAIR: Well, you surely cannot average costs. Mr. Howe. What we are trying to give you here is the data from the board's waybill study to show you what proportion of total revenue comes from various classes and what is the average revenue per ton mile in those classes. All these movements have characteristics that are common but they also have characteristics that are different.

Mr. HOWE (*Wellington-Huron*): I have one other question I would like to ask, Mr. Chairman, if my time has not expired. We hear a lot about freight

rates. There is nothing in any of this in terms of express, in L.C.L. shipments. This is not involved in this bill at all?

Mr. SINCLAIR: Yes. L.C.L. traffic is going down very, very quickly on the railways because a lot of freight that moved L.C.L. before is now being consolidated and is moving in pool cars or is being consolidated and moved by railways in set out cars and fanned out by truck on a co-ordinated service, and express rates are covered by the bill. The principles that are applicable with respect to freight rates generally are applicable with respect to express rates. They are under the control of the committee.

Mr. SOUTHAM: Many of the questions I had planned to ask have already been discussed but I would like to come back to this question of cost accounting again. It seems to me that the thread of discussion in all this evidence comes back to these factors.

On page 10 of your summary, under section 50, you say: "Cost determination will become of greater importance with the enactment of Bill No. C-231. The costing requirements of the bill are in conformity with the conclusions and the recommendations of the MacPherson commission. The commission found that the progress made in the science and art of costing was such as to permit the use of costs with confidence."

I feel that in the light of all the evidence we have heard in these inquiries and previous ones on Bill No. C-120 that there is some doubt about coming to this conclusion. I think we are perhaps trying to reach an agreement on techniques of cost accounting but I still do not think we have, because in section 31 of this same summary you make this statement. "Costing techniques were then sufficiently developed to enable the MacPherson commission to arrive at a conclusion on the cost of moving grain. Refinements have since been introduced in these techniques. "There is a little ambiguity in these two statements. Mr. Howe, in his questions, referred to these matters. I am wondering, Mr. Chairman, would Mr. Sinclair or Mr. Crump like to make any remarks on whether this new transportation board should not themselves have an adequate and very capable staff of cost accountants to more or less correlate the public's interest with the figures that you have determined.

Mr. CRUMP: Yes, Mr. Southam, we have made the point in our brief that we feel that the new commission should have a powerful and strong costing section. After all, as you say, it is going to safeguard the public.

Mr. SOUTHAM: In section 63 of your summary you say "After making allowances for additional revenues from freight traffic and reduction in operating costs resulting from increased efficiency, we anticipate a deterioration in our net earnings in the first year after enactment of the bill. This situation can be expected to worsen in subsequent years with the annual reduction of the "normal payment" as provided in the bill." Why do you make this statement?

Mr. SINCLAIR: Well, Mr. Southam, as we have tried to point out in our main submission and in our summary, we think that the bill is deficient in running the \$110 million off so quickly, and that it should come off more gradually.

It comes off on a basis of \$14 million a year or; in other words, in seven years, after it starts to come off. We think that should be stretched out quite a bit so that it does not come off so quickly. To give you our thinking, and looking

forward as well as we can do, we think that it should not exceed coming off at \$10 million a year. In other words, it is coming off at \$4 million a year too high. We think it is too precipitous. That is our suggestion there. Once you have a freeze for such a long period as we have had, and our rates are now lower on our class and non-commodity rates than they were in December 1958. They were rolled back behind that. After all the years that have gone by, a certain rigidity has come into the situation that you cannot overcome quickly, and if you do, you bring about distortions and anomalies that you should guard against. What has happened here is that we are going to be forced to guard against them without having a proper recompense. This is why we have suggested that the bill as drafted is too precipitous in its take off of the \$110 million. It should be spread out over a longer period.

Mr. SOUTHAM: I think you have a point there, Mr. Sinclair, but Mr. Crump in answering Mr. Howe a few moments ago referred to the matter of productivity and efficiency, of course, in the development of transportation. Productivity I think here is a very important factor because—

Mr. SINCLAIR: Oh, yes, we agree with that.

Mr. SOUTHAM: —looking at the west again, and at this map on the wall here, and the fact that the government has listened to the strong representations of the westerners regarding all these abandonments—and I might say that the westerners are quite pleased with the fact that we have more or less eliminated a great number of these for the time being—I think the action was taken on the fact of the optimistic view of the productivity. For instance, in the west this year we anticipate taking off the largest crop in history with a very large increase in the volume of income for your railroads, both C.N. and C.P. You have mentioned potash. I think that these factors contradict this particular brief.

Mr. SINCLAIR: We have taken that into account. We have made projections forward of the productivity as we see it in our calculations. While I am happy to know that the western people are in support of this plan that the government has—you said they were—it is placing and imposing another burden on the railways. Do not forget that, because there are many lines that are going to remain there that really cannot ever be efficient.

Mr. SOUTHAM: I am not saying that, Mr. Chairman. I made it a point because I am in an area where we were affected and you know my views on rail line abandonment.

Mr. SINCLAIR: Yes, I do, sir.

Mr. SOUTHAM: I have made a point of checking the records with some of the elevator agents along certain lines since 1958, I am suggesting that the MacPherson Royal Commission, when you go back those eight year, were far too pessimistic in some of their recommendations as far as rail line abandonment is concerned and a lot of suggestions were made as far as the—

Mr. SINCLAIR: We never agreed with them, you know, Mr. Southam, in Canadian Pacific. We never agreed with them. We agreed with what you are saying. We think they were too pessimistic about western Canada in regard to line abandonments. We never accepted the criteria advanced by the MacPherson

Royal Commission of 25,000 net ton miles per mile of line. If you look at the abandonment applications Canadian Pacific made, they were never on that criteria.

Mr. SOUTHAM: Well I am glad to hear you say that. I know that I made these certain specific checks on the increase in volume of grain, our productivity, on a couple of the lines in my area and I found in several instances it increased a hundred per cent in the last eight years.

For instance, the productivity for a mile in one area went up from 39,000 to 80,000 bushels. I am suggesting that on the basis of economics of volume there was a large increase. Going back again to the Crowsnest pass, this bill contains a clause saying that in 1969 we can take another look at this. If you look at your financial statements from 1961 on, you will see that—in 1961 there was a very poor volume of grain—the revenue from the west accelerated at such a rate that we could only come to the conclusion it must have come from the grain handlers.

Mr. SINCLAIR: Well, you came to a wrong conclusion that it came from grain handling because in my judgment, Mr. Southam, grain at Crowsnest rates is now moving at less than variable costs.

Mr. SOUTHAM: This is a debatable question.

Mr. SINCLAIR: This is why we are happy that the bill is going to resolve it once for all in a very detailed way and study in depth. If you believe that the size of the crop has overcome the problem of grain at that rate, I think you are wrong, Mr. Southam, based on my experience and knowledge of the facts and costs that are in there.

Mr. SOUTHAM: I have just one more question here for clarification. On page 9, section 45: you say "It is recommended that the reference to subsection (4) in section 314D (5) be deleted." This is the section which allows the commission to release traffic figures. For what reason do you make that statement?

● (11.40 a.m.)

Mr. SINCLAIR: Well, the way I view this, Mr. Southam, is this. We are in a pervasive competitive situation, and we are required to give data that nobody else is required to give. We are required to give it in depth, and if it becomes public it goes into the hands of people who, with that basic information, can translate it into their own situation, not absolutely, but enough to make them very, very difficult to deal with in the negotiating process, because it gives them a tremendous advantage to know all the facts about the other side when we, negotiating with them, have no facts about their side. Because there is no place we can get their costs or where we can force them to give their costs.

Mr. CRUMP: I think it goes beyond that also, to the point that the other modes of transport, our competitive forms of transport, do not reveal any of their costs.

Mr. SOUTHAM: Personally, I am in agreement with the setting up of this new transportation commission. In the future, in all modes of transportation, this board should have, as I suggested a while ago, the most competent staff available.

Mr. SINCLAIR: We will make all our data available to them.

Mr. SOUTHAM: Yes, but independently, so that they will have the figures of the competitive types of transportation that you are suggesting now, in answer to this question, would make it embarrassing to you and give them an advantage.

Mr. SINCLAIR: Yes, but you see a lot of our competitors will not be under their jurisdiction.

Mr. SOUTHAM: Well, I feel that they should be.

Mr. SINCLAIR: But the bill does not put them under the jurisdiction, and I think the Minister in his statement said that it is not his intention, to bring interprovincial trucking in, only that he is covering the area.

Mr. PICKERSGILL: Well, I would like to be permitted to say a word about that. I would imagine—I have not any figures at all—perhaps I should say “I believe”, as many of us do when we do not know the facts, I believe that most of the trucking in this country is still intra-provincial; that is, wholly within a province. Now, any trucking company that operates wholly within the bounds of a single province cannot, under the constitution of Canada, be brought under the control of a federal agency, unless we amend the constitution, and we would have to get the agreement of all the provincial governments, and then go to Westminster because it is not within the jurisdiction of Canada. Now, the Privy Council did decide that where a single trucking operation goes across a provincial boundary, that is exclusively within the jurisdiction of parliament, and a provincial legislature cannot make laws with respect to it even if it wants to. That is the situation. Now, we decided in 1954, when the Privy Council made its decision that that is what the constitution meant, the parliament of that day decided to confer the jurisdiction over interprovincial transport to the provincial boards who would act as federal agents. That was not conferred by the provincial legislatures, because they have not got the power to do it. It was conferred by the parliament of Canada, and these provincial agencies were made federal agencies only for the purpose of regulating traffic that went outside the province.

Now some difficulties have arisen about the operation of that act, and that is why we have this provision in this bill that will enable this commission, if the governor in council decides at some future time that it is necessary in the public interest to do it, to have the commission exercise this federal jurisdiction.

Mr. SOUTHAM: Mr. Chairman, I appreciate the Minister's explanation and his views on this matter, but I think that we heard, in answer to a question put by Mr. Horner earlier, Mr. Sinclair definitely put another point of view on regarding interprovincial trucking. He pointed out the large amount of stuff that was being transported from Western Canada, for instance, down here to Toronto.

Mr. PICKERSGILL: I do not think there is contradiction between Mr. Sinclair and me at all about this. I am saying that if we come to the conclusion that any of this traffic that goes from one province to another by the same carrier should be brought under this commission, it will be possible to do that at any time; but we are not going to do it immediately, and we are not going to do it without consultation with the provincial governments, because we believe that if we tried to do it without consultation with them we would have an even more confused situation than any there is now.

An hon. MEMBER: Something like medicare.

Mr. PICKERSGILL: It is not a bit like medicare; it is the exact opposite, because here you have an exclusive provincial jurisdiction, for those trucking companies which operate strictly within the province, and you have an exclusive federal jurisdiction for those who operate across provincial boundaries. But the effective exercise of that federal jurisdiction, because the trucks move on roads that are owned by the provincial governments and not by the federal government, is a very difficult thing to imagine, and it is going to require a lot of ingenuity and a lot of co-operation before that can be done. That is why all we have done is to put an enabling clause in here at the present time.

Mr. SOUTHAM: The time is fast approaching when we are going to have to provide the enabling legislation, because trucking is not just within the provincial boundaries now; they are interprovincial and international, air transport, waterways, pipelines, I think, now. I was wondering whether Mr. Sinclair could give me an example of where there were people other than the Minister has mentioned—

Mr. SINCLAIR: Well, I certainly agree with what the Minister has said. The Winner case which decided that the interprovincial highway operations were within the exclusive jurisdiction resulted, as he has said, in the establishing of the provincial highway regulatory authorities agencies of the federal government to regulate, if they wish, that type of trucking. Unfortunately, some of them do not actually regulate it, and none of them regulate it as closely as railways have been regulated. I agree 100 per cent with what the Minister said about the relationship of the exclusive areas of control under our constitution. Undoubtedly, interprovincial and international trucking is continuing, but once again in pipe lines the same situation exists. Pipe lines that are wholly within one province are under the jurisdiction exclusively of that province. There are pipe lines in Alberta that start and end within the province, but interprovincial pipe lines are under the jurisdiction of the federal government and are regulated by the federal government. When you come to air, the jurisdiction over air has been established by the Privy Council, under our constitution, to be wholly within the jurisdiction of the federal government. And then when you come to marine, you have a mixed bag of tricks again, except that the constitution has put marine within the jurisdiction of the federal government. The one big area that is left out is trucking and it is a divided jurisdiction. But, Mr. Southam, you are surely right that international and interprovincial trucking are growing apace and have made very rapid strides in recent years. Then you get into an even greater complication, Mr. Southam, and that is where the goods are moving interprovincially by trucks, but the movement of the trailers in which the goods are is by rail piggyback.

● (11.50 a.m.)

Mr. SOUTHAM: I am speaking now just as an ordinary Canadian. I am looking forward to the time in the not too distant future when all these modes of transportation can be brought under the control of this board. I am in agreement with this board, and I think, in order for it to function properly, it should have the co-operation of the general public, because I think the public themselves realize in this modern day and age that we should have compensa-

tory rates which are fair to all the various people working within the field of the various transportation systems.

Mr. SINCLAIR: Mr. Southam, this is why we have said that a carrier who is not brought within the jurisdiction should not be able to complain about the rates of a person who is. Now, there is one answer. We have gone here into costs and we have gone into inter-modal competition, and your question really dealt with the disclosure of information regarding traffic on branch lines which were not to be abandoned. Because of the area concept of the bill they say that we must give them this information, and we are quite happy to do so. One section of the bill says that information will be kept confidential, but another section of the bill goes on to say that it will be disclosed. We are saying that the draftsman has fallen into inconsistency in this area, and it is for this reason that we have said that there has to be a change in Section 314D(5).

Mr. FAWCETT: Mr. Sinclair, I am going to get back to what Mr. Howe was talking about, the rates non-competitive and competitive. It is my understanding that bulk movements of ore, grain, potash and so on are strictly in the non-competitive area. They would not be considered as competitive.

Mr. SINCLAIR: Some grain movements are competitive.

Mr. FAWCETT: But only a minority of them.

Mr. SINCLAIR: Yes.

Mr. FAWCETT: Would you say that the competitive rate would cover the handling of such things as carloads of furniture, carloads of drugs, and this sort of thing. Are they all in the competitive rates?

Mr. SINCLAIR: Yes; as a matter of fact, Mr. Fawcett, we practically lost to trucks all our furniture moves. They have moved practically 100 per cent to highway carrier.

Mr. FAWCETT: Could you give me examples of, say, three or four commodities which would come under competitive rates.

Mr. SINCLAIR: An outstanding one and easy to see is automobiles. There are trucks, canned goods, potatoes, sugar, cement.

Mr. FAWCETT: The reason I asked this question is because it has been my understanding—and I could be wrong on this, but this is from writing up quite a few thousand waybills—that there would be a lot of items carried under competitive rates, which would be in carload lots in the nature of, say, from 10 to 25 tons. Is that correct?

Mr. SINCLAIR: I would say right off the bat, Mr. Fawcett, that in the area of competitive rates we have very large, heavy loading cars which are competitive. One that easily comes to mind is meat.

Mr. FAWCETT: Yes.

Mr. SINCLAIR: And, again, canned goods. There is a very heavy loading of canned goods going in multiple car lots, and they are highly competitive. They are both truck and water compelled.

Mr. FAWCETT: I have a little difficulty in understanding why the cost of handling these competitive goods would, as you stated, be considerably higher in most cases than handling non-competitive.

Mr. SINCLAIR: Mr. Chairman, may I go back to the question Mr. Howe put to me? I am sorry, Mr. Howe, apparently I was not following you completely. You asked me, by taking averages, to work out the average net on competitive rates against the average net on non-competitive traffic. The quick answer to that is that I could not give it to you unless I costed every single movement.

What I was trying to tell you is that the variations become so great that you have to look at specifics when you get down to the cost side. We gave you this information to give you the parameters of the matter as developed by the board's waybill analysis. But, we could not give you that figure unless we costed every single movement which was within the area.

Now, Mr. Fawcett, let me give you an example of the difference. Meat: Meat moves in mechanical reefers. We will take this as an example. That car cost 40 odd thousand dollars per unit. Potash can move in a boxcar with roof hatches, and that costs \$10,000—in other words, a fourth of the other type of car. In the case of meat, if we have a mishap, the claim on it is pretty high as compared to the claim we would have on potash. Potash would move in multiple car cuts with no problem of any degree in gathering. It is loaded at the mine; we pick up maybe 20 or 30 cars which come in blocks; there is no intermediate switching; and the cost of moving it is very much less.

These are some of the examples of changes which are reflected in these revenues.

Mr. FAWCETT: I know you were asked about this, Mr. Sinclair, but I thought you had not broadened out enough on this to give the Committee the picture. When you have had experience in moving these commodities you realize a lot of these things.

Mr. SINCLAIR: Yes; and thinking of your background, Mr. Fawcett, another thing which I did not say was this—and it is very important—that we will move potash in tonnage trains and when we get a hold of some meat or merchandise traffic we will do reductions from tonnage and, instead of moving tonnage, we are moving very much substantial reductions from our A rating basis and that increases the cost.

Mr. FAWCETT: Yes. I have only one more question, Mr. Chairman, and it has to do with productivity.

I understand that you do not think there is going to be as great an area for increased productivity in the future as there was during the age of dieselization. Is this correct?

Mr. CRUMP: Well, the single act of conversion from steam to diesel did, briefly, increase our productivity in the latter part of the 50s, but I see no single factor on the horizon at the moment which will increase our productivity comparably. We hope to work steadily at the problem of increasing productivity and increasing efficiency, naturally, but I see no large factor on the horizon to match that.

● (12 noon)

Mr. FAWCETT: Nothing comparable to the dieselization process; but would you agree that there is the possibility that an innovation such as coming up with a different kind of car for handling a commodity, or various commodities, could have an effect on this?

Mr. CRUMP: We are doing this all the time, Mr. Fawcett.

Mr. FAWCETT: Yes, I realize this.

Mr. CRUMP: If you take a look at the equipment program of the railways now, as compared to a few years ago, you will see how largely we have gone to specialized equipment. Much of this specialized equipment results in a 50 per cent haul with a 50 per cent return empty, putting it bluntly.

There is another factor involved in this, and that is the very high capital cost of this specialized equipment. Nevertheless, we have to do it if we are going to remain competitive, and we are doing it.

Mr. FAWCETT: I think it is the policy of the railways now to go to the shipper and try to ascertain from him what type of car best suits his purpose.

That is all I have to ask.

Mr. CRUMP: This is part of every day negotiations.

Mr. HORNER (*Acadia*): Mr. Sinclair, in order to try to reach agreement, let us suppose, for the sake of argument, that there is a captive shipper and he is shipping some goods somewhere. He goes to this commission and he proves to the commission that he is a captive shipper. The commission says "all right", and they set the rate—variable cost plus 150 per cent—and that rate is published. Does not this disclose your variable cost then, because all one has to do is a little reverse mathematics and he could arrive at your variable costs.

Mr. SINCLAIR: It does; but you see I expect that they will be so few and far between that no one will ever be able to form a pattern that would enable him to get any useful information.

Mr. HORNER (*Acadia*): But you tell this Committee that because it is detrimental to your competitive position you cannot disclose any costing figures to this Committee. This is an old argument that witnesses, for the C.P.R. and the C.N.R. have presented to this Committee. The argument really does not stand up, because what happens today in the Committee—while it is relatively public—is forgotten tomorrow, in quite a few cases. If you revealed your costs now—

Mr. SINCLAIR: Not by our competitors. A couple of people who were in here this morning would dearly love to get a lot of figures, and they would do—

Mr. HORNER (*Acadia*): I am not asking you for a lot of figures. I am asking you to give the Committee a set of costing figures on a given commodity, so that we can fully understand.

Mr. SINCLAIR: But Mr. Horner, once I give you a set of figures—Let me say this: If instead of me being here, there was a trucker, and he gave me a set of figures, I can use them only in certain areas, and I do use them in certain areas, but there are a lot of things I cannot get out of our own areas. We do not blanket the whole country. In any event, with restricted information I can build them.

Mr. HORNER (*Acadia*): You can build the costing figures?

Mr. SINCLAIR: I can tell you, from the work we did and the information we gave in the grain cost study, our difficulties, through industrial traffic

people using certain of those figures and building on them, increased tremendously.

Mr. HORNER (*Acadia*): But would the same thing happen with this commission in this case of the example with which I began my questioning? If a person builds a *prima facie* case and is declared a captive shipper and they set a rate for him, is this not going to be a problem to you, because it is going to disclose to your competitors your variable cost on the movement of that commodity?

Mr. SINCLAIR: As I said to you, I expect them to be few and far between. Do you know what is going to happen here?

Mr. HORNER (*Acadia*): I want to know.

Mr. SINCLAIR: In my judgment, a fellow will take a look at this and he will think: "I am possibly going to be a captive shipper." Even if he does qualify and he gets the range of rates, he will see that he has so much of a better deal existing through negotiation with the railway that he will drop it immediately.

Mr. OLSON: That is exactly right.

Mr. SINCLAIR: If I may, Mr. Olson, it is a protection for the man who is able to say that the railways have taken advantage of an effective monopoly and have held them up to too high a charge.

Mr. HORNER (*Acadia*): This is a point that I have been trying to clear in my own mind and for the people that I represent. How much protection will there be. You say it will be used "few and far between." You are, then, agreeing with me, because there is no protection at all.

Mr. SINCLAIR: No; because they have greater protection, they do not need legislative protection. The thing that always amazes me—and I have been in this business and dealing with freight rate matters for a few years—is how many people have closed their eyes to what has happened in the post-war period in relationship to what is the effective control on transportation pricing. The effective control on transportation pricing is massive, pervasive, intermodal competition and not regulatory action.

Mr. HORNER (*Acadia*): All right. We have reached an agreement that clause 336 is going to be of very limited and very little protection. Then why is it—

Mr. SINCLAIR: Mr. Horner, I did not agree. I said it is great protection—

Mr. HORNER (*Acadia*): In a very limited number of cases.

Mr. SINCLAIR: Because no one is in a position, other than those very limited cases, to need it.

Mr. HORNER (*Acadia*): All right. You say that the effects of business at the market place will provide all the competition necessary. If that is so, why is it that 4.7 per cent of your revenue moves under class rates and 29.6 per cent—nearly 30 per cent—moves under non-competitive rates? Why is there such an animal as a non-competitive rate, and a class rate which is even far and above non-competitive rates, if the marketplace is providing that competition?

Mr. SINCLAIR: Let me say right now, Mr. Horner, that one of the big movements of class rates is pool cars. I know of nothing in the whole of

transportation that is more competitive than pool car traffic. This is where a forwarder gathers a lot of small shipments and moves them at a carload rate; and he moves them at various minima, depending on the weight.

Let me give you one very big shipper, the Montor, Tormon Shippers Association. This involves all Eatons, Hudson's Bay, Kresge, Metropolitan and the Army and Navy stores. They ship Toronto-Montreal, Toronto-Winnipeg, Toronto-Saskatoon, Toronto-Edmonton, and Toronto-Vancouver. They ship all across the country, eastbound and westbound. Their traffic is moving at class rates. Now, no one—just no one—would ever say that that fellow is a captive shipper.

Mr. HORNER (*Acadia*): All right; in some cases class rates apply to people who are not captive shippers.

Mr. SINCLAIR: Certainly.

Mr. HORNER (*Acadia*): This is what you are saying about those people, and I will accept that; but I cannot accept the statement that all people who use, or are subject to, non-competitive rates in class rates, are certainly moving in a competitive area, or in a competitive field.

Mr. SINCLAIR: I never said that they all are, Mr. Horner. I say that there may be some—and there likely are—but I really do not know who they are. I am giving you examples. You asked about class rates, and I have given you the big chunk of class-rated traffic, a very large chunk.

I have also pointed out to you that normal commodity rates are, in many cases, competitive. They are market competitive from outside the country and things like that. Let me go to Alberta. I will give you another example, Mr. Olson. Let us take the bottles from Medicine Hat to the whiskey distillers in the lower mainland of British Columbia; the rate is controlled by glass bottles moving from California to the lower mainland of British Columbia, and they will move at a specific commodity rate.

● (12.10 p.m.)

Mr. HORNER (*Acadia*): This is the competition within the marketplace. I well understand that.

Mr. SINCLAIR: All I am saying to you is do not think that just because they are not badge competitive they have no competitive factor in them. In other words, all class and normal commodity rated shippers are not captive shippers—not by any chance. This is a difficult area, because there is a lot of jargon in it, if I may say so. Freight rates are not easy; you cannot learn them from a book—you learn them through osmosis, and this is a difficult area. I wish we could be more precise in language, but we have tried. It has been pointed out on more than one occasion, Mr. Crump, that we fall over our feet with words, because we are trying to pull it in too tight, and there are many, many exceptions. This is a complicated subject.

Mr. HORNER (*Acadia*): I agree it is a complicated subject, and this is why I want to bring it down into the simplest possible terms so that even I can understand it, perhaps, or even get a glimpse of it. This is why I would like you to give the Committee an instance where a piece of goods moves from A to B,

and your cost is so much. Give us the exact facts and figures, and then the osmosis process might speed up a great deal.

Mr. SINCLAIR: We gave you a lot of them, and went on for months giving them to you, Mr. Horner.

Mr. HORNER (*Acadia*): When?

Mr. SINCLAIR: In the MacPherson Royal Commission in respect to grain, and you were not happy at all. You were most unhappy.

Mr. HORNER (*Acadia*): That could well be, in that particular instance. But we are not talking here about the grain rates. I see the initial erosion of the Crowsnest pass rates in this bill, but the Minister disagreed with me on that.

Mr. SINCLAIR: I see no erosion at all. I see for the first time in the history of Canada an absolute statutory protection that they have never had in their history before, and I have spent a little time on Crowsnest rates, Mr. Horner. Never has the western Canadian farmer had as much protection in regard to rates on the movement of grain as he will have if this bill is enacted.

Mr. HORNER (*Acadia*): All right. Let us analyze that statement; what is this bill going to do with subsidies?

Mr. SINCLAIR: What kind of subsidies?

Mr. HORNER (*Acadia*): General railway subsidies. What is the principle of this bill? It is for the general reduction of those subsidies and maybe the eventual removal of them, is that not true?

Mr. SINCLAIR: The purpose of the bill is to pay the railways for work they do in the national interest, and moving grain at Crowsnest rates is in the national interest.

Mr. HORNER (*Acadia*): You are not answering my question.

Mr. SINCLAIR: Well, you asked me what this bill was going to do.

Mr. HORNER (*Acadia*): About subsidies generally. Is it not going to reduce them and eventually remove them?

Mr. SINCLAIR: It is going to substitute specific payments for work done for generalized subsidies.

Mr. HORNER (*Acadia*): Generalized subsidies are going to be removed.

Mr. SINCLAIR: But in their place will go specific payments for work done. And if I may say so, Mr. Horner, I am glad to see it, because a lot of people think we are getting subsidies when we are getting payment for work done now.

Mr. HORNER (*Acadia*): You stated earlier that a movement of grain does not cover your variable costs.

Mr. SINCLAIR: That is my judgment. We have not done a costing study recently.

Mr. HORNER (*Acadia*): Now, if that statement is true, and if grain next year suddenly began to move by pipeline, would you be better off?

Mr. SINCLAIR: No, and the reason we would not be better off is that we have, by statute, been given a duty to carry grain; we are, by statute, going to

have a duty to carry it in perpetuity, and we have committed hundreds and hundreds of millions of dollars in track and equipment to make a plant ready to move that grain. Therefore, the answer to your question is, obviously, we could not be better off. We would be substantially worse.

Mr. HORNER (*Acadia*): In other words, the movement of grain is helping to pay for this huge commitment you have already made in machinery, track and repairs.

Mr. SINCLAIR: The fact is, Mr. Horner, that we would not recover in salvage the cost of the plant that is in place for the movement of grain, and it is as easy as that. That is why a short-term heavy grain movement increases net; it is as easy as that. But on a long-term—and having in mind that you have to work long-term—it is going to have a deteriorating effect on your net.

Mr. HORNER (*Acadia*): I do not accept that.

Mr. SINCLAIR: I thought we were going to reach agreement.

Mr. OLSON: I have a couple of questions on the subject matter we were discussing a few minutes ago. In your reply to some of Mr. Horner's questions, Mr. Sinclair, I take it that you do not agree that shippers at class rates would be captive shippers?

Mr. SINCLAIR: Not necessarily, although I would think that if there were captive shippers, this is where you would find them. If there were captive shippers, I think you would find them paying class rates; but what I was saying is, do not fall into the trap of thinking that all class-rated shippers are captive.

Mr. OLSON: Are you familiar with a document that was referred to in these Committee proceedings a while ago by the Minister? It is a telegram from the Prime Minister to the provinces—

Mr. PICKERSGILL: I wonder if I could raise a question, if you are going to refer to these documents. I have all the correspondence, going right back. I am quite prepared to table it and make it part of the record of the Committee, but I think it would be rather unfortunate to start quoting bits and pieces. I did not quote from any document; I made a paraphrase for my own purposes and took my own complete responsibility for something that was in that particular telegram, but if Mr. Olson feels it would help him to be able to refer to the document I would be glad to table it.

The CHAIRMAN: I will bring to the attention of Mr. Olson page 1677 of the first report of Transport and Communications, at which time, when the Minister was paraphrasing, Mr. Ballard brought up the matter, and I read it:

Mr. Ballard: Is the Minister, in reading this document, expressing or indicating, that he is in complete agreement with the content of the document?

Mr. Pickersgill: Absolutely.

Mr. Ballard: Absolutely?

Mr. Pickersgill: I wrote it.

Mr. Ballard: Mr. Chairman, on a point of order, I want the Minister to take full responsibility for it or to—

Mr. Pickersgill: Oh, I take the full responsibility for it. The document I may say, is signed by the Prime Minister, but I did write it and he was good enough to. . .

Mr. PICKERSGILL: I did write it.

Mr. HORNER (*Acadia*): Let us table this and get on with our work.

Mr. OLSON: The Minister would have no objection to quoting from other sections of the same document, would he?

Mr. SINCLAIR: I would like to make clear, Mr. Chairman, Mr. Olson and Mr. Minister, the Prime Minister did not send a copy to Canadian Pacific. I have not a copy of that document.

Mr. PICKERSGILL: It was correspondence only with the governments of the three prairie provinces, their premiers and their advisors, and I do not think copies were sent to anybody except to the three governments. It was a quasi-personal correspondence, we thought.

Mr. SINCLAIR: In answer to your question, we have not got it. I did read newspaper reports on what Mr. Pickersgill had said, and that is the extent of my knowledge.

Mr. PICKERSGILL: Mr. Sinclair, I have just offered the Committee, for inclusion in the record, a letter of September 14th from the counsel of the three prairie provinces, which was addressed to the Deputy Minister of Transport; a letter to the Prime Minister signed by the prairie premiers, and then the Prime Minister's telegram to the prairie premiers which was also sent to their counsel. There have been replies from two of the prairie Premiers and there is also a telegram going out today to these two Premiers. I have not those documents available at the moment but I will be very glad to table them when the Committee resumes this afternoon, or if perchance I should not be here, I will ask Mr. Turner to do it for me.

● (12.20 p.m.)

The CHAIRMAN: Is it the wish of the Committee that these be printed as an appendix or that they just be tabled with the Committee?

Perhaps we could just have copies made for the members of the Committee.

Mr. PICKERSGILL: I do not know if it would be of tremendous value to print them. I have a few copies now. If copies could be made for circulation, I think it would be satisfactory.

An hon. MEMBER: Agreed.

The CHAIRMAN: I have here a letter dated September 15.

Mr. PICKERSGILL: First, there is a letter dated September 14, and that will be in another folder. It is a report to the Deputy Minister. I will see that you you get whatever is not available now this afternoon.

The CHAIRMAN: I have had given to me by the minister photostat copies of telegrams dated October 5, 1966, to the Premier of Manitoba and counsel; to the Premier of Saskatchewan and counsel and to the Premier of Alberta and counsel. I also have a letter dated September 15 directed to the Prime Minister from counsel for the Premiers of Manitoba, Saskatchewan and Alberta.

Mr. PICKERSGILL: Are you sure there are not letters also to the Deputy Minister dated September 14?

The CHAIRMAN: They are all to the Prime Minister.

Mr. PICKERSGILL: May I just look at one of them? I thought there were two of them together. I think you will find, sir, that underneath the letter from the premiers is the letter from the three counsel. They happen to be fastened together.

The CHAIRMAN: Yes, September 14, letter to the Deputy Minister of Transport from the three counsel of the Provinces of Manitoba, Alberta and Saskatchewan. There are some copies here now that we can distribute; we can have other copies made and sent to you later today. They will be prepared immediately. I will have these made up immediately by the Clerk and we will distribute whatever there is here now.

Mr. OLSON: Mr. Chairman, what I was getting at is that in previous meetings of this Committee—and I want to say this when the Minister is here—he attempted, by quoting from this telegram and in other arguments that he advanced, that the only parallel that could be drawn so far as existing traffic is concerned, is that a captive shipper would be a shipper who is now paying maximum or class rates. I understand Mr. Sinclair does not agree that any parallel can be drawn between the maximum or class rate shippers and captive shippers.

Mr. SINCLAIR: I have not had a chance to read this right through but I am reading from the telegram that is signed by Mr. Pearson—the copy I have is directed to the Prime Minister of Manitoba, the Hon. Dufferin Roblin—“If you or your advisers could give us typical examples of shippers now subject to maximum rates (class rates) permitted under existing regulations whom you consider would fall into the category of captive shippers as defined in Bill No. C-231...” and so on. I do not see that is inconsistent with what I said at all. What I said was, I do not know who these captive shippers are, but I said if there were any, they would be the people who would be paying class rates, but do not fall into the trap of thinking that all class rated shippers are captive shippers.

Mr. PICKERSGILL: If you could just read from the top of page two, I think you will find there is a total coincidence of view between what he has now said and what Mr. Pearson said in the telegram except that Mr. Pearson said it negatively and Mr. Sinclair said it positively.

Mr. SINCLAIR: I agree.

Mr. OLSON: Trying to use class rate shippers as a basis for establishing captive shippers is just nonsense, is it not?

Mr. SINCLAIR: No, not at all, Mr. Olson; quite the contrary. It is my fault, I know, but what I am saying is, if there is a captive shipper and this could be and might be, then this is where you would find them. You would find them as a class rated shipper.

Mr. OLSON: That is exactly what I was trying to get at. Then you are saying there are no captive shippers, so far as your definition of a captive shipper is concerned, in categories other than those who are now paying class rates.

Mr. SINCLAIR: I would say, having given some thought to this, that I cannot think of anybody who would even come close unless he was a class rated there are no captive shippers, so far as your definition of a captive shipper is potash, sulphur, fertilizer, coal—these are very large commodities—and iron ore.

Mr. OLSON: In any of these commodities that I presume are moving under what is termed non-competitive commodity rates, you do not think there is anyone who could qualify for the term "captive shipper" and apply for a rate under section 336?

Mr. SINCLAIR: What I would say is that he might meet the definition but he would never apply because he has greater factors of protection than he would ever get under the section.

Mr. OLSON: We get back to the same old thing. What is the use of having a section in the bill providing maximum rate control if it is not going to be used, and if there is very little or no possibility that it will ever be used.

Mr. SINCLAIR: You must remember that we handle hundreds and hundreds of thousands of individual shipments a day and we are able to identify people by bills, but we are not able to identify them with that particularity because we are large shippers. Mr. Olson, this is something that I think a lot of people do not understand. Let me give you an example: Of the total freight traffic for Canadian Pacific, about 77 per cent of it is handled by about 110 shippers. Now, under the rest of them there are hundreds of thousands.

● (12.30 p.m.)

Mr. OLSON: I wonder if you would be willing, without identifying a shipper or a commodity, to give us some information on, for example, what is the highest return over variable costs which you get now under the rates which are being charged.

Mr. SINCLAIR: I know of a competitive rate which is returning in excess of 300 per cent.

Mr. OLSON: That would be the highest rate that you have?

Mr. SINCLAIR: You asked me and I just know one. I will turn to our expert here.

Mr. OLSON: If you could show that there was some possibility of competition you could and, in fact, do charge as much as 300 per cent over variable costs?

Mr. SINCLAIR: Well, certainly, Mr. Olson, because that fellow is very, very anxious to move by us at that rate because of the various factors we can give him. Security is sometimes worth an awful lot of money. Mind you, we will take the risk and if in that instance we lose, we might find ourselves in the negative position.

Mr. OLSON: Risks? Is that what you said?

Mr. SINCLAIR: I said we do take risks, Mr. Olson, and anybody who works on the railroad knows that there are risks in it. We have unfortunate affairs which destroy things and people every once in a while and some of our claims can be very, very costly, as Mr. Fawcett I am sure can tell you.

Mr. OLSON: Would you say that your competition, or even the people you deal with to negotiate rates, could gain some valuable advantage over you if they had an indication of any of these variable costs, because if they had some they could translate them into other terms which would be valuable to them? When you gave us what we thought, at least, was a complete disclosure of the variable costs of running the Dominion, is this valuable to your competition?

Mr. SINCLAIR: Well, it is quite a job to translate costs in respect of running a passenger train into running a tonnage freight train. It would not bother me at all. He could look at those all he likes and he is not going to learn very much about freight.

Mr. OLSON: You had some commodities involved in that movement that you referred to as "head end" traffic, did you not?

Mr. SINCLAIR: "Head end" traffic?

Mr. OLSON: Yes, and it is expressed in general merchandise of one kind or another, is it not?

Mr. SINCLAIR: Yes, but we were not costing the movements of each of those individually, we were giving you the cost of a train and the revenues of a train.

Mr. OLSON: Mr. Chairman, before I pass I would like to ask Mr. Nepveu a question on depreciation and cost of money, and so on. When you claim depreciation in your variable costs, could you tell us very briefly how you do this, for example, on rolling stock.

Mr. P. A. NEPVEU (*Assistant Comptroller, Canadian Pacific Railway*): On rolling stock we compute depreciation on the straight line basis, which is the method prescribed by the board. For example, if we have a box car it would have a certain service life and we apply a rate to that box car. We arrive at the total depreciation on an annual basis for a box car. It is then related to the volume of traffic that is being handled. We arrive at a unit cost for depreciation.

Mr. OLSON: How much is it on box cars?

Mr. NEPVEU: On a box car?

Mr. OLSON: On this straight line depreciation?

Mr. NEPVEU: We are using a rate which is in the neighbourhood of 3 per cent per annum.

Mr. OLSON: In adding your cost of money into your variable costs, what kind of figures do you use now?

Mr. NEPVEU: Well, on cost of money we apply a rate to the depreciated value of the asset. That is the price we paid for it less the depreciation which has accrued. We apply the cost of money rate to this value.

Mr. OLSON: On the undepreciated value?

Mr. NEPVEU: Yes, on the undepreciated value.

Mr. OLSON: One other question. Does the Department of National Revenue accept as a cost the cost of money?

Mr. NEPVEU: Well there are two methods of computing depreciation. First of all, the Department of National Revenue is not concerned with the cost of money as such.

Mr. OLSON: They are concerned with the over-all real costs of operation.

Mr. NEPVEU: The Department of National Revenue has prescribed some rules whereby we depreciate on a declining balance basis rather than the straight line basis, which means the rates are about twice as high as the straight line rates. The rate is applied to the original cost of the asset the first year and then the amount which is claimed as a capital cost allowance is deducted and the next year it is applied to the residual, so this is where the term "declining balance" comes from. In each year it is applied to the residual which has not been depreciated.

Mr. OLSON: On this straight line depreciation which you use, you continue to use that to establish it on a unit basis, even after the asset or the piece of equipment may have been fully depreciated do you not?

Mr. NEPVEU: Well, we depreciate on the group basis, Mr. Olson, so that in effect if we have a unit of equipment that has exceeded the average service life of the group of assets, we continue accruing depreciation on it. Also, if a unit of equipment is retired, say, after five years it is either wrecked or sometimes it may become obsolete after a very short period, and then the rate is no longer applied. That unit of equipment is taken out of our books.

Mr. OLSON: You write off the balance of it, do you not?

Mr. NEPVEU: Yes, write it off and we charge it against the depreciation reserves. We may have only \$300 in depreciation reserves and the value of the unit may be \$10,000, so we have to recover that money from the other units which outlive the average service lines.

Mr. OLSON: Mr. Chairman, I think I will pass.

Mr. PICKERSGILL: I would like to ask a question which follows the questions asked by Mr. Olson. Mr. Sinclair did say that he had been trying to think of some shipper who is paying what are called "non-competitive" commodity rates and who might conceivably apply to have the maximum rate put on his shipments. I wondered if as a result of his cogitations he had thought of any such shipper.

Mr. SINCLAIR: No, I have not.

Mr. JAMIESON: I would like to get back to this matter of the research aspects of the proposed commission. I gather that at least part of the problem seems to come from a confusion over definition. Now, research can cover a broad area. I take it, Mr. Crump, that the kind of research which you are talking about is the sort of thing which anticipates future developments, and that kind of thing, and it is not necessarily tied to the day to day operations of the commission. Is this correct?

Mr. CRUMP: Perhaps the day to day operations of the commission must have what might be loosely termed a research group to aid them within their regulatory functions. But the research which I had in mind was, as you say, the broader aspects of where we are going in the transportation industry and how best can it be welded together.

Mr. JAMIESON: Well, what I am trying to get clear in my mind is the reason for your concern, which is expressed in the summary of your brief, about these two functions—the regulatory and the research function—being too close together. I do not want to put words into your mouth but is your concern here, perhaps, that the research branch might be used more or less after the fact to support views or decisions which the regulatory side had already reached? In other words, they would merely use the research to support conclusions which they had already made. Is this part of your concern?

Mr. CRUMP: No, in the research division they will be looking, as I see it, at all of the modes of transportation and that the most effective and efficient transportation mode will find its level in the transportation group as a whole. Now, the regulatory function under this bill is quite different to that. I do not think the two should be interwoven at all, they should be kept distinctly apart because they are really two different subjects.

● (12.40 p.m.)

Mr. JAMIESON: You have said though that the regulatory functions are going to require a fair amount of research support?

Mr. CRUMP: Oh, yes.

Mr. JAMIESON: I am trying to see where the separation lies. In other words, if someone is given a regulatory responsibility—

Mr. CRUMP: I do not think you can draw a line and say this is the demarcation, because the knowledge that is developed in the research function undoubtedly will be used by the connection as a whole. I particularly have in mind the research that probably will be done between the different modes of transportation and, as a matter of fact, perhaps a reference to President Kennedy's message to Congress in 1962, which was a document in very advanced thinking, I must say. It followed volume I of the royal commission's report by about a year, and yet if you read the two you will find a somewhat similar trend in thinking. In the message to Congress it was stipulated that competition should be maintained between the various modes of transport without being a detriment to any one by some false buoying up and, in fact, within one mode of transport where the volume is sufficient. I think there is a great deal of work that has to be done on this and it is obvious that it is being started in the United States. As I see it, the opportunity under Bill No. C-231 is going to be very great to follow along in the same way. But I do not think it should be used to maintain a false relationship between the various modes of transportation.

Mr. JAMIESON: I can appreciate the concern, the only thing I am wondering about, if you are on this commission, is how can you turn a key in your mind and one moment be a sort of pure research person and the next moment use this information when you are making regulatory decisions.

Mr. CRUMP: But I think the committees will be able to do that.

Mr. PICKERSGILL: I wonder if I could say a word in reply to Mr. Jamieson on that point. This follows from something Mr. Stafford said the other day when Mr. Jamieson happened to be out of the room.

The bill does provide that there will be one president of the commission. There will be two vice presidents. One of the vice presidents will deal broadly with research and will have nothing whatever to do with the regulatory function. The other vice president will be the one who presides over the various committees, each of which will have its own chairman to perform the regulatory functions. The only way I can see where there would be any connection is that it is quite obvious that if, in carrying out its regulatory function, one of the committees feels it needs a piece of information that is probably not in its own possession but might be in the possession of the research side, they would ask for that piece of information in order to help them make up their minds but the people doing the research would have nothing whatever to do with making the decisions. I think the CNR when they were here expressed some fear that they might have something to do with it. It is certainly not intended by the bill that they should.

An hon. MEMBER: By the process of osmosis.

Mr. PICKERSGILL: Well, by the process of osmosis every regulator and every other sensible person, before he makes up his mind, tries to get all the facts so that he can make a judgment on facts and not beliefs. As I said once before, I am afraid some of the facts that will be turned up by research are going to destroy some of the cherished articles of faith that many people have about transportation. Personally, I am an old fashioned rationalist. I think if you can substitute facts for faith it probably is to the advantage of the community.

Mr. JAMIESON: I would like to ask one other question of Mr. Crump. This morning you made reference to the fact that there is no particular study going on in the universities. When the CNR president was before us he made some comment along the same lines, but he also suggested that the transportation companies and perhaps the government might provide some financing to get this kind of thing going. Would you subscribe to this, or has the CPR ever indicated its willingness to help in this field financially?

Mr. CRUMP: Mr. Jamieson, we already donate or subscribe very major amounts each year to help education in Canada. I might make one proviso to that: if we get adequate freight rates I would be very glad to do so.

Mr. JAMIESON: I was not casting any reflections at all.

Mr. CRUMP: We are already doing so.

What I particularly had in mind, Mr. Jamieson, is that it is 45 years since I went to school but at that time the school I attended had a staff of about 150 men, maintained by the American Railway Association, on pure research at that particular school. I do not know if there is anything comparable to that now in the United States, but this is the type of general research I had in mind that should be going on in Canada, rather than the specific research outlined in this bill. I must say, Mr. Pickersgill, that while I simply drew attention to the possibility of a mixture of the research and regulatory functions, I am very happy to see it in the bill. Perhaps on the basis of pure research the universities are the proper vehicle.

Mr. JAMIESON: I want to say this, Mr. Crump, that firstly I agree totally with your views on the need for research, and secondly with the need for encouraging some university to get into it. What I am wondering about is that

although these things can be thrown out as generalities, someone has to initiate the kind of action that will get a university interested. I wonder if you think the transportation commission could do something along this line. In other words, talk to a university and ask them to get started on it and maybe the companies will contribute.

Mr. CRUMP: I am convinced they could. Of course, being a governor of McGill I am a prejudiced witness.

Mr. JAMIESON: Thank you.

The CHAIRMAN: We intend to adjourn at 1 o'clock, so Mr. Schreyer will be the last questioner.

Mr. SCHREYER: Mr. Chairman, my first question will be directed to Mr. Sinclair. It relates to the topic that is under discussion, research. I would ask if, in his opinion, the establishment of a research committee under this bill in any way diminishes the need for the setting up of a chair on transportation study for the major Canadian universities?

● (12.50 p.m.)

Mr. SINCLAIR: No, sir, I do not think so. A few years ago at the University of Toronto there was a transportation chair and right today if you want to take transportation economics you have to go to the United States to do it, and I think that is a terrible thing. My own university does not have a chair in transportation and while Mr. Crump is emphasizing what he calls operational research and pure research in its relationship to the school he attended, I think it is too bad that in Canada there is no transportation economics chair. I know of none. We used to have them. I think McGill used to have, as he happened to mention, at one time a transportation economics course but they do not offer it any more.

Mr. HORNER (*Acadia*): Mr. Chairman, I do not want to shut the chair off but I move we adjourn. We do not have a quorum and we should call it quits for the lack of members.

An hon. MEMBER: That is foolish.

Mr. HORNER (*Acadia*): No, we do not have a quorum.

An hon. MEMBER: I have one more question.

Mr. HORNER (*Acadia*): If we do not have a quorum we cannot sit. We cannot sit, Mr. Chairman, we do not have a quorum. I demand that the clerk make a count.

The CHAIRMAN: We will adjourn and resume at 3.30 this afternoon or after orders of the day.

AFTERNOON SITTING

THURSDAY, October 20, 1966.

● (3.55 p.m.)

The CHAIRMAN: Order. We now have a quorum, gentlemen.

Mr. Schreyer was questioning. When he comes back he will begin again.

Mr. BYRNE: Mr. Chairman, I would like for a moment to refer Mr. Crump to page 2, section (b) of paragraph 5 of your submission, in which you quote the objectives of the bill. Set down here in real black and white they come to our attention perhaps a little better. You say "each mode of transport, so far as practicable", that is what the bill says, "bears a fair proportion of the real cost of the resources, facilities and services provided that mode of transport at public expense".

There has been an area of public expenditure that has concerned me for some time as a provincial taxpayer. I am wondering whether you could tell me if the Canadian Pacific Railway have figures, either estimates or exact figures, of the relative cost of roadbed maintenance in general operating costs.

Mr. CRUMP: We have them available. I have not got them. Mr. Nepveu, have you got them?

Mr. NEPVEU: That is for the railway?

Mr. BYRNE: Your railway, or if you have it for railways generally.

Mr. NEPVEU: The total road maintenance in 1965 was about 17 per cent of our total railway expenses.

Mr. BYRNE: Operating expenses?

Mr. NEPVEU: Yes. That is the total cost of road maintenance, not the variable cost only. That is the total cost of road maintenance, to the total railway expenses. It amounts to about 17 per cent.

Mr. BYRNE: That includes the depreciation on the track.

Mr. NEPVEU: That includes the depreciation on the track and the depreciation on the structures, the bridges, buildings, stations, engine houses and shops.

Mr. BYRNE: Do you know if there are comparable figures, either estimates or guesimates of what the trucking industry would pay in respect of what could be called roadbed maintenance?

Mr. NEPVEU: For trucking industry itself, I cannot say. At least I am not aware of any figures. There are figures of the total expenditures on construction and maintenance of the highways which are published by D.B.S., and the total revenues contributed by all motor vehicle operators which include the automobiles. I have some figures here which show that over a period of 14 years, 1951 to 1964, the revenues provided by fuel taxes and the motor vehicle registration fees and other related revenues came to slightly less than 60 per cent of the total expenditures. That leaves a little more than 40 per cent which is the assistance contributed by the government.

Mr. BYRNE: Does this include expenditures on the construction of highways?

Mr. NEPVEU: Construction and maintenance.

Mr. BYRNE: Construction and maintenance?

Mr. NEPVEU: Yes, sir.

Mr. BYRNE: Sixty per cent.

Mr. NEPVEU: Yes, sir.

Mr. BYRNE: I would like to ask Mr. Crump if he is satisfied that the commission which will be set up under the act would be charged with the responsibility of doing some research in this regard?

Mr. CRUMP: I would think so, if they are going to explore the efficiency of the various modes of transport. After all, the trucking industry now is an exceedingly important segment of our transportation industry in this country. I would think they would explore that. I would like to point out, and I think my information is correct that in this country our statistics are not as complete in regard to highway transport as they are in the United States. It may well be that additional statistics will have to be maintained in order to get a true picture of what is taking place.

Mr. BYRNE: Would it be practical for this commission to set up sample areas, or even construct highways and employ automobiles, trucks and so on, to travel over them? Would this be a practical way of researching the cost?

Mr. CRUMP: In other words, really setting up test sections.

Mr. BYRNE: Yes.

Mr. CRUMP: I think that would be an extremely expensive way to proceed with their research. I think by the gathering of statistics and information on the network of highways that we have extending across this country covering all conditions, mountain, prairie, and urban, it could be done without that.

Mr. BYRNE: The air industry is getting quite heavily into the freight transportation as well. Do you consider that the facilities being provided at federal government expense mostly, has a subsidizing effect beyond what we are giving to the railways?

Mr. CRUMP: Well, I do most decidedly. In regard to air cargo, which is I think what you are referring to, it has been rather interesting to see the development of the intercity ton miles in this country over the years when oil pipe lines first became a significant factor. I think around 1951. I am not too sure about that, but somewhere in there, and then about four or five years later gas became a significant factor in the intercity ton miles, and now air cargo for the first time is becoming a significant factor. It has not yet reached the stage in Canada where it is included in the ordinary D.B.S. statistics. I believe that last year, 1965, for the first time in the United States, air cargo represented one per cent of the intercity ton miles in the United States. So this is growing, and I would think that it will become a significant factor.

● (4.05 p.m.)

Mr. CANTELON: I was very much interested this morning in the question that Mr. Andras asked which referred actually to sections 7 and 13 which deal with research. The answers you gave indicated that at the present you are very much interested in it too and were doing quite a bit of work along that line in order to obtain efficiency in operation.

I wonder, since true research is most generally done in the universities, have you ever considered any grants to universities to assist in transportation research? Perhaps I should not say just considered; have you ever done anything along that line?

Mr. CRUMP: I think we would have to twist that around the other way, if I may, Mr. Cantelon. We have assisted most of the universities in this country by contributions to their general fund—their general campaign—but I do think that possibly the setting up of a chair for transportation economics which we were discussing this morning, might well be considered.

Mr. CANTELON: I would certainly like that because I think this is something that ought to be done. I think that as far as the national interest is concerned since we are putting some \$110 million into the subsidy, we could well afford to put a few million into subsidizing research which might help to eliminate some of that subsidy.

Mr. CRUMP: I think this is an excellent suggestion. I must say that when you ask me the direct question, have we done this, I have to answer we have not done it yet. The principal reason for this is that with the tremendous expansion plans of all the older universities in Canada and the institution of so many new universities, the available funds we have are completely taken up by them. Perhaps a diversion of some of the capital funds to setting up a chair might be more beneficial. I think that is perhaps what you are saying.

Mr. CANTELON: I saw an advertisement the other day containing a picture actually of a number of engineers who were doing research work. Is this so in your company?

Mr. CRUMP: Yes. We have a research department. In our company it is primarily what they call operational research with very little physical research involved. We have many engineers in the research department who work on these problems. The physical research is quite a different matter and sometimes I am inclined to wonder whether a railway is the proper place to do that. I had the opportunity just a couple of months ago to spend a morning at the research plant of the Japanese railways outside of Tokyo. They are doing a good deal of research which seems rather familiar to me as having been done but they are putting greater refinements on it. However, they are also looking well down the road and I think, for instance, that Tokaido line of theirs was researched almost entirely in this one plant.

Mr. CANTELON: Have you any investigation into the use of hopper cars or a new type of grain car for moving grain? I wonder if this is economically feasible. Would it cut your costs? Of course, if it would, I expect you would do it.

Mr. CRUMP: I would like to answer that but Mr. Sinclair wants to, so I think we will let him do it.

Mr. SINCLAIR: I think we should tell you that with the co-operation of the Canadian Wheat Board we are in the process, right at the present time, of trying to develop a program simulation computerized model and to do some research in co-operation with the Canadian Wheat Board. This would involve methods of trying to improve the utilization of equipment to arrive at better estimates of E.T.A's on vessels and to make the grain flow more efficient than it is at the present time.

In regard to the cars, a number of people have asked us questions about that and while a large number of the terminal houses can take hoppers, a very large number of the country houses cannot take hoppers, as their spouts are not

high enough. In addition to that, the cost of hoppers and the delays to them, and the extra switching needed to use them in only specialized houses, as far as we see it right now, restrict the use of them, in a large part of the grain areas as we have them. If you have a flow like the one from the Moose Jaw house or Lethbridge or Calgary of clean grain and it is going right through to a terminal that can take hoppers and you have a quick turn around, they will fit. But we also have to consider that that is a specialized movement, unless you have a back haul, and we do get some back haul relationships to a box car, particularly on the west coast.

Mr. CANTELON: I have heard some criticism of the turn around time that is taken. Is this attributable to the railways or is this the fault of the terminal elevators?

Mr. SINCLAIR: It certainly is not our fault if cars are sitting on track for day after day after day and we are ready to put them in there. This is a major problem and is certainly one that the railway industry in Canada have forcibly brought to the attention of the elevator companies on more than one occasion. That is a major subject in itself. I think, also, there is a tendency to work these houses on a five or five and a half day basis. In my view this is completely unrealistic when you are going to move out of western Canada in normal years, I hope very soon, crops of around one billion bushels.

Mr. CANTELON: That is a very interesting view. In other words, they work a five day week when they ought to work a seven day week when they are in a rush like that. However, are their facilities modern and up to date? This is the criticism that I have heard, but perhaps you would not care to comment on that but I would like to hear from you.

Mr. SINCLAIR: There are some very good elevators at the lakehead, very modern ones and there are some very old ones. On the west coast, and I am glad the Minister is here to hear me say this, I think that it has been generally recognized by the grain trade and the Department of Transport that there is a lack of facility in terminal elevator space at the west coast in light of the grain that is now moving and we can see moving through the Pacific ports.

Mr. CANTELON: I would like to ask you about Churchill, but I guess this is out of your province, so I will not ask it.

Mr. CRUMP: If I might add, Mr. Cantelon, a couple of factors there that seem important to me. Mr. Sinclair used an air line term and applied it to the nautical side which is rather heresy, but E.T.A. is the estimated time of arrival. It is not only the movement of the grain by railroad but it is the loading time, the unloading time and the arrival of the ships; any detailed studies or research on this, I think, should encompass the whole field. In so far as your question, have the railways done anything about it—and I am also glad the Minister is here—we tried to do something about it in the way of demurrage on grain cars some eight years ago but it is still not applicable.

Mr. CANTELON: I gather from what Mr. Sinclair has said, elevators actually do not work a seven-day week. Is there any reason why they cannot work a seven-day week?

● (4.15 p.m.)

Mr. SINCLAIR: Labour problems. They allowed themselves to get tied in, in restrictive labour agreements. Also, they have a psychology that they have to have a certain amount of down time. One of their problems, and it is a problem and I recognize it, is the relationship of their true capacity and the work house capacity for cleaning and drawing grain, so that they may be working in their work houses drying and screening and not using their elevation. Quite frankly, they are not geared for the kind of crops that western Canada is producing and can produce.

Mr. CANTELON: I think it is time they were.

Mr. SINCLAIR: I am talking terminal. The turnovers in the country houses are relatively small but you have to remember, Mr. Cantelon, that it is not very long ago that nobody considered that normal crops could be grown in the areas that we now can seed them, and that people thought that agriculture was a non-vibrant and non-progressive industry and that cereals could not be sold. This situation has changed and so has the whole demand for cereals in what I call the Pacific basin. These things have changed.

We want to be fair about it. You cannot change quickly fixed facilities that are as big as they are and I think that some steps are being taken. You have to remember that it is very tough terrain from the prairies to Vancouver. Also, there are some limitations in regard to movements around in the ports. The matter is receiving attention and there are some mooted extensions of terminal elevators in the Vancouver area and I believe Saskpool is building one.

The CHAIRMAN: I do not think that is a fire bell. I think we should adjourn.

Mr. PICKERSGILL: I think before you adjourn, Mr. Chairman, as I will not be able to come back after the adjournment, I have now in my hands the telegrams from Mr. Roblin and Mr. Manning to the Prime Minister in reply to the Prime Minister's telegram and copies of telegrams that are identical except for a date, that I sent this morning in reply to these telegrams. In order to complete the file I would like to table them with the Committee.

The CHAIRMAN: I will hand these to the clerk in order to have copies made and have them available to members on the Committee. We will reconvene just as soon as the vote is over.

Recess.

After the recess—

● (4.53 p.m.)

Mr. HORNER (*Acadia*): Mr. Sinclair, correct me if I am wrong, but we now have a Board of Transport Commissioners who rule and regulate any freight increases which the railways might wish to impose on traffic.

Mr. SINCLAIR: Outside of competitive rates and agreed charges, and outside of—

Mr. HORNER (*Acadia*): What do you mean by "outside of"? They have no control over competitive rates?

Mr. SINCLAIR: You do not have to get approval for competitive rate increases.

Mr. HORNER (*Acadia*): Pardon me.

Mr. SINCLAIR: You do not have to get the board's prior approval for competitive rate increases.

Mr. HORNER (*Acadia*): You do not have to for competitive rate increases, but you do have to for non-competitive rates?

Mr. SINCLAIR: That is correct.

Mr. HORNER (*Acadia*): What similar regulations will carry on in the future, after this legislation comes into effect?

Mr. SINCLAIR: When this legislation comes into effect, any rate about which a person made a complaint which the commission undertook to hear would mean an investigation into the rate.

Mr. HORNER (*Acadia*): It would not matter whether this person was a captive shipper or not?

Mr. SINCLAIR: That is correct.

Mr. HORNER (*Acadia*): He would just be able to complain?

Mr. SINCLAIR: I hope it would not only be a complaint, but that he should be able to substantiate a *prima facie* case before he starts complaining.

Mr. HORNER (*Acadia*): A *prima facie* case of what—that he is a captive shipper?

Mr. SINCLAIR: No; that he has an interest and that there is something the matter with the rate. It might be that it is non-compensatory, or that in some way it is restrictive, or against the public interest.

Mr. HORNER (*Acadia*): In the case of an undercharge it has to be compensatory, and it has to be in the public interest. In other words, if the rate is too high and is bringing about a shutting down of the industry, or curtailment of the industry to the advantage of another area, or another country's industry, this would be the only time that the board would take any interest? Am I right?

Mr. SINCLAIR: "Public interest" is a pretty broad term, Mr. Horner. You have given some examples, but I would not think that they were exhaustive.

Mr. HORNER (*Acadia*): What I am trying to ascertain is this: On non-competitive rates we now have a regulatory body for which you will have to develop a *prima facie* case that the rate should be raised.

Mr. SINCLAIR: What we do is that we file tariffs, and the board, under the existing law, sets them down for hearing. We ask, for their approval to increase the base rates and the non-competitive badged traffic. Of course, they cannot touch the statutory rates, and the competitive rate levels and agreed charges are fixed by elements outside, and, by definition, are below the base rates.

Mr. HORNER (*Acadia*): I want to get this absolutely clear in my mind. I am sure all good legislators hope to see legislation passed only after the country is fully aware of what effect it is going to have on them.

Earlier today, Mr. Crump said that, without a doubt, when this bill passes we are going to have a reduction of subsidies and an increase of freight rates to offset that reduction of subsidies. In other words,—

Mr. SINCLAIR: Over a period of time.

Mr. HORNER (*Acadia*): Over a period of time, and with good judgment. In other words, if I, as a legislator, aid in passing this bill, I can, as a taxpayer and as a freight shipper, expect my freight rates to go up. That is one aspect of it.

I would now like to look at this other aspect. . .

Mr. SINCLAIR: Mr. Horner, you as a legislator, by not freezing wages and by not freezing prices of produce and by not freezing a lot of other things, are bound to increase other costs. Therefore, if you want to stop all these things, the way to do it is to freeze them all. Freeze wages and freeze all produce prices; for instance, freeze cattle prices at the 1958 level.

Mr. HORNER (*Acadia*): The year 1952 would be a better level. However, this is not the point. Here we are dealing—

Mr. SINCLAIR: I think it is the point.

Mr. HORNER (*Acadia*): All right; you think it is the point.

I will ask you this: What was the purpose of the founding of the original Board of Transport Commissioners?

Mr. SINCLAIR: If you wish to go back to that, in 1903, or at the turn of the century, the railways were in a position to exercise monopolistic tendencies, and it was the view of the legislators at that time that the public interest required that their powers in this regard—

Mr. HORNER (*Acadia*): Because of the monopolistic position the railroads found themselves in, it was in the public interest to set up a regulatory body to control them.

Mr. SINCLAIR: Yes; because the technology which the railways introduced so far exceeded the other means of transportation that it was necessary for them to be controlled.

Mr. HORNER (*Acadia*): I want to get back to where I was some time ago, but before I do that I would like to know if you are saying that the monopolistic conditions no longer exist with regard to the railroads, and that they do not need the regulatory body governing them anymore?

Mr. SINCLAIR: That is right; except in this regard, that they need it in regard to minimum rates to prevent pricing below to force out a smaller competitor. That is why the minimum rate section is there.

Mr. HORNER (*Acadia*): Naturally, one could assume that this would be the position taken by the railway; but you would not hold it against anyone, not in the business and concerned about the public interest, for doubting whether or not the monopolistic condition was fully removed?

● (5.00 p.m.)

Mr. SINCLAIR: Of course, as I think the Minister said, Mr. Horner, beliefs are sometimes very hard to get rid of; but we in the business know, by practical experience and the fact that we meet on a day-to-day basis, that the area where

effective competition exists is pervasive and, indeed, the Royal Commission on Transportation, after many months of hearings and travel, found that to be a fact.

Mr. HORNER (*Acadia*): Let us go back to where I was a while ago in my questioning dealing with what is going to happen if this bill is passed? I suggested that we were going to have a freight rate increase—modestly, and over a period of time.

Mr. SINCLAIR: You are going to have a freight rate increase because freight rates are only one element in the total cost and they are affected by the costs by which everybody else is affected.

Mr. HORNER (*Acadia*): Another thing is going to happen if this bill is passed. We are no longer going to have any protection over the setting of non-competitive rates. Am I right in this?

Mr. SINCLAIR: You are going to have it in this way,

(a) that the rates cannot be set at a predatory level. That is the floor.

(b) If the man who is the shipper has not got other sanctions section 336 protects him,

and section 336, even though it is not used by somebody, does act as an umbrella.

Mr. HORNER (*Acadia*): Let us go back now, Mr. Sinclair. The Board of Transport Commissioners rule and regulate any desire the railroad might have to increase non-competitive rates; am I right?

Mr. SINCLAIR: Class and non-competitive rates.

Mr. HORNER (*Acadia*): I would like to go along with you and have you come with me, because I really do want to agree with you. We have come that far. Let us see how much further we can go. This morning you nearly convinced me that any shipper who is shipping under present non-competitive rates could not possibly qualify as a captive shipper, or that very few of those people could qualify as captive shippers.

Mr. SINCLAIR: It is quite different to put it that way. I think the second way is right, as I see it. By "very few", I mean that there may be quite a few individuals, but in total amount of ton-miles, or in total amount of revenues, they would be relatively small. But the reason that even some of those, who could utilize section 336, would never utilize it is because we would negotiate a rate which is lower than the level of 336. This is the important point to get into your mind: We would negotiate a rate below the level of 336.

Mr. HORNER (*Acadia*): I know; but, as a legislator, I am trying to find out what this bill is going to do to the transportation industry and to the shippers. Now, I have established the fact that it is going to cause freight rates to go up.

Mr. SINCLAIR: The bill is not going to cause freight rates to go up. Please, this is a very important thing. It is the action of the economy, the increase in costs, of wages, and material prices that are going to cause freight rates to go up.

Mr. HORNER (*Acadia*): I am sure that the record will show that Mr. Crump and I agreed to that earlier. With the reduction of the subsidies, Mr. Crump said

and agreed that, with due judgment, over a period of years freight rates will go up.

Mr. SINCLAIR: The reason that the freight rates are going up, Mr. Horner, is because of changes in the cost factors that we have to pay to provide the service. The subsidies were put in there to—

Mr. HORNER (*Acadia*): I am losing ground. I thought we had reached an agreement on that one, and now we seem to be disagreeing. I am sure the record will prove it, but I will look it up.

Mr. CRUMP: Mr. Horner, I am quite aware of what I said this morning, but it seems to me that the intent of your questioning in the last few moments seems to imply that the days of monopoly of the railways are not over, and that the whole basis and theory of the MacPherson legislation does not exist. I would just like to say—and these are D.B.S. statistics—that the inter-city ton miles in this country in 1964, which is the last available, were 42 per cent to rail, 9 per cent to road, 27 per cent to water, 14 per cent to oil pipeline and 7.6 per cent to gas pipeline. This is how far we have come from the days of monopoly.

Mr. HORNER (*Acadia*): I am not disputing the fact that the monopolistic conditions that the railroads once had are diminishing. I am not disputing that at all. I am just saying that it has not disappeared; and while the MacPherson report made a comprehensive study of transportation in Canada, I am not accepting it as a bible either. What I am trying to establish clearly in my mind is what this bill does. We have a board which regulated non-competitive rate increases. I am saying that, as near as I can ascertain from an examination of the witnesses here today and other witnesses, this particular aspect will be removed with the passage of this bill, and non-competitive rates will be allowed to increase.

Mr. SINCLAIR: Because, Mr. Horner—

Mr. HORNER (*Acadia*): Whatever the traffic will bear.

Mr. SINCLAIR: Oh, no, Mr. Horner. When we came before the Board of Transport Commissioners in 1946, in the first general revenue case following the war, I think it is the case—and I am talking now from memory—that the proportion of revenues which was moving from competitive rate of traffic was in the neighbourhood of 10 per cent; that is, competitive badged traffic. Competitive badged traffic, in which I now include agreed charges, is now in excess of 50 per cent of total revenue.

As I pointed out to you before, I think you have either misconceived the bill, or I am not making myself clear.

Perhaps I can do this. What does this bill do about freight rates?

(a) It extends and implements statutory rates on grain to export position to a greater extent than has ever been done in the Canadian transportation field;

(b) It removes any question about the ability of predatory pricing to be utilized by any of the industries which are governed in their rates under this bill. In other words, rates must, as a floor, be compensatory. That is the minimum rate, then. On the maximum side, anyone who has not got economic sanctions to protect him, or who has to rely on railways

because they have no alternative, as the bill explains it, has a statutory basis on 30,000 pounds plus a 50-50 sharing of cost savings beyond that. That is, in summary, the kind of rate structure that you have.

Mr. HORNER (*Acadia*): I am well aware of that; but there is really no regulation on the setting of non-competitive rates as we now understand that rate category.

Mr. SINCLAIR: There is a removal of shackles which were a manifestation of a bygone age.

Mr. HORNER (*Acadia*): In your opinion; would you add that to that?

Mr. SINCLAIR: Not in my opinion. In the opinion of—

Mr. HORNER (*Acadia*): —of the provincial governments of the prairie provinces?

Mr. SINCLAIR: In the opinion of people who have spent a great deal of time studying it, including the MacPherson commission and many people in the transportation industry who spend a great deal of time on it every day.

Mr. HORNER (*Acadia*): I know that. It pays. It is to your advantage. I do not blame you at all for saying what you are saying. It is to your advantage to have these shackles removed.

Mr. SINCLAIR: I think it is to the advantage of Canada to have them removed, because shackles cost money—

Mr. HORNER (*Acadia*): Is it to the advantage of all parts of Canada?

Mr. SINCLAIR: I certainly think so.

Mr. HORNER (*Acadia*): All right; let us look at that statement for a minute. From the time the whole transportation field in Canada was field established—your railroad and the CNR—have not subsidies played a prominent part in the maintaining of a railway service throughout the whole of Canada?

Mr. SINCLAIR: I certainly know this, Mr. Horner, that for many years subventions have attributed to the movement of grain out of the west. I know that.

Mr. HORNER (*Acadia*): I am not going to get into that because—

Mr. CRUMP: It does seem to me, Mr. Horner, that it is in the interests of Canada that the transportation industry should be viable.

Mr. HORNER (*Acadia*): That we in the west should pay the bill.

Mr. CRUMP: Should be viable.

Mr. SINCLAIR: Mr. Horner, the west does not pay the bill. This is a little bit of folklore, you know. They taught it to me—

Mr. HORNER (*Acadia*): You could say that, and go out there and get elected? They would love you!

Mr. SINCLAIR: They do love me—not would love me!

Mr. HORNER (*Acadia*): It would be because of your charming personality, not because of what you think.

The CHAIRMAN: I had better come back to Mr. Schreyer, because he was cut off when he tried to ask a question.

Mr. SCHREYER: Since then I have added to the number of questions I have.

I would first ask Mr. Sinclair if he would accept, as a general proposition, that where a country has a tariff structure that tariff structure benefits the central part of the country rather more than the geographic extremities. Therefore, if one accepts that, it follows that the regions of the country removed from the centre are entitled, on a reciprocal basis, to some form of subsidization on transportation costs?

● (5.10 p.m.)

Mr. SINCLAIR: Are you asking me if I am a free trader?

Mr. SCHREYER: No, I am not. I am asking you—

Mr. SINCLAIR: The answer is yes. I happen to be a westerner. The answer is yes, I am a free trader.

Mr. SCHREYER: This answers the question only in part. What I want is your opinion on whether or not a tariff structure tends to benefit the central part of the country, to the disadvantage of the regional extremities, and if this does not then justify subsidization for transportation?

Mr. SINCLAIR: I would not draw the parallel to the tariff policy. I think that national policy in certain areas justifies subvention to certain other areas. I think they should be recognized for what they are and not hidden in some way, as they have been in the past.

I can see justification, for instance, for subventions on coal that is a long distance from tide water. As another example, I can see justification for subventions to the coal industries in the maritimes for putting coal into central Canada, as against short haul coal from the United States. These are two examples. I can see advantages in subventions for transportation to remote areas, for instance, on the west coast of Vancouver Island or on sparsely settled parts of Newfoundland. I could go on.

Mr. SCHREYER: What about farm machinery to the prairies?

Mr. SINCLAIR: I find it very difficult on farm machinery to the prairies. I was just telling Mr. Crump, I have a cousin, who just took off a solid section at 37 point some bushels to the acre of No. 2 wheat. He is lucky.

I do not think, Mr. Chairman, that there is any necessity for subventions on farm machinery.

Mr. SCHREYER: Mr. Chairman, I believe that Mr. Sinclair said this morning—and I will try to quote him as correctly as I can—that many people fail to realize that the controlling factor in transportation costs in the post-war era is massive, pervasive, inter-modal competition. If one accepts that premise, does it not follow that it is a major deficiency in this legislation that there is no provision for bringing the other modes of transportation under the same kind of oversight?

Mr. SINCLAIR: We discussed this point this morning when the minister was here and he made a statement with which I certainly agree, that under our constitution, intraprovincial trucking is under the exclusive jurisdiction of the

provinces. Interprovincial trucking is under the exclusive jurisdiction of the federal government. The federal government has set up the provincial regulatory bodies as federal government agencies to exercise the federal government's jurisdiction in that field. There is provision in this bill to enable this commission, under government action, to take back what they gave away. I for one think that that may happen some day, but until it does happen there is quite a bit of non-regulation of part of the inter-modal competition area, I agree, because the provinces have not exercised it, they have not put in any controls. A lot of them have not even required filings of tariffs, and in some cases you cannot find out what the tariff rate is on concealed inter provincial trucking.

Mr. SCHREYER: Mr. Sinclair, would you not concede, constitutional problems notwithstanding, the absence in this legislation of the same kind of provision for the other modes of transportation is nevertheless still a deficiency.

Mr. SINCLAIR: You may have a different definition but a deficiency to my mind, must be something that you can correct, and with our existing constitution you cannot correct the division of the powers in regard to trucking. I was surprised that the government did transfer their jurisdiction on interprovincial trucking many years ago after the Winner case. Nevertheless, they did it. That was a matter of government policy at the time. This bill sets up an opportunity for them to bring it back if they so wish, or if government in the future wishes to bring it back.

Mr. SCHREYER: I asked the question because it relates to your recommendation on page 9, paragraph 45, of your summary. You recommend that the reference in the bill which would allow the commission to release traffic figures should be deleted on the ground the other modes are not so required. I agree with that.

Mr. SINCLAIR: I am glad you agree with it, but this has to do with traffic levels in respect of branch lines that were not up for abandonment and there is an inconsistency in the section. In one place it is confidential and in an other place they say it can be released. Clause 314 (5) is the one that gives traffic statistics on branch lines that are not to be abandoned but it is done to enable the commission to get the feel of an area concept of how much traffic is there, and they are confidential. Then later in the same section they say they can be released. We think this is most unfair.

Mr. SCHREYER: Mr. Chairman, I would like to clear this up. When I said I agree with this, I meant I agree with it in the sense that I feel that no one mode of transportation should be required to give data to the commission, which it may then release, if the other competing modes are not. That is the sense in which I meant it.

I have one last question, Mr. Chairman. This is in relation to paragraph 65 on page 13, in which you contend that the phasing out period for subsidies, and so on, should be somewhat lengthened in order to avoid precipitousness. I believe that was the way you put it. Would you regard it as practical to relate this formula for phasing out to the fluctuation of economic growth in the country? If the economy is relatively buoyant, it seems to me it should follow that the revenue of the railways should be relatively high and therefore a

larger amount could be deducted in so far as subsidies are concerned. If the economy is not buoyant, the railway revenue is relatively less and may require subsidies in order to maintain its sound financial position. Now, do you think it would be feasible to relate this phasing out to the economic climate of the country?

● (5.20 p.m.)

Mr. SINCLAIR: That is not a bad thought if you consider this further fact, which I think makes it very hard to do, and that is that today our class and non-competitive commodity rates are significantly lower than the levels they were at in December 1958. This long period of time in which our rates have been frozen has introduced rigidities and problems which make it very bad to make precipitous change. I think it was recognized by the government when they drew this bill up that they wanted to do this somewhat gradually. But I think they did not spread it out far enough. I made the suggestion this morning that instead of going up at \$14 million a year it should go up, let us say, at \$10 million a year. In other words, the \$110 million is spread over an 11 year period or, counting next year, a 12 year period, as against an eight year period as it is under the existing bill. That was my suggestion.

Your inter-relationship does not take into account the economic factors as they exist today, it does not take into account this hiatus period of frozen rates when our costs were not frozen, and where the subventions did not meet the total amount of increased costs.

Mr. BELL (*Saint John-Albert*): Well, Mr. Sinclair, you said a moment ago, I think, that the new legislation reduced statutory requirements and straight economics come into play. I am going to suggest a certain situation where the economic side of it which now comes into play might be fairly weak and not good for the economy. Take the case of a shipper who is dealing in bulk cargo in more than the 30,000 carload weight. We notice examples of this out west because this seems to be the major objections of the provinces and I believe there would be some in the maritimes. He comes to you, private negotiation takes place, and a rate is agreed on. Now, you will probably say that this is private enterprise and he will seek the best deal he can get, but I suggest that while he still wants the best rate that he can obtain, he might be in such a type of near monopoly industry or near monopoly enterprise that is difficult to get a comparison for him. I do not know whether politics come into this but it strikes me it almost might. This is my question to either you or Mr. Crump. He gets this rate, he is not happy about it but he says, "Oh, well, I will pass that down along the line somewhere through the industry. I am not actually too competitive in Canada, so it will work its way out and I will still be able to operate." Now, where is the protection for the Canadian person who is concerned about his resources? This comes into your argument which you made a while ago about how we must be careful at all cost concerning this misallocation of resources.

Mr. SINCLAIR: Well, could I refer you first to section 336.

Mr. BELL (*Saint John-Albert*): That is what I meant, of course.

Mr. SINCLAIR: If the man is in a near monopoly position, as you have suggested, he would have no effective alternative in competitive service and he would then have in section 336—

Mr. BELL (*Saint John-Albert*): Excuse me. I am not talking about the carrier, I am talking about the type of industry. For example, the specialized situation potash is in.

Mr. SINCLAIR: Mr. Bell, let us take potash. We know of the \$500 millions which have been committed to the development of potash in Saskatchewan. Let us take the year 1970. By 1970 the amount of potash produced will be 10 million tons. Now, 10 million tons is certainly going to be extremely difficult to market. You may say such a man has so much production, and it is such a large part of the world's production, that he does not have to worry. You say he has got a monopoly on potash and he can charge what he likes for it. But it is not one company who owns that 10 million tons, there are a whole number of companies and they are owing to compete one with the other. So, potash is certainly never—as I see it in Canada—going to get into the kind of monopoly or near monopoly—

Mr. BELL (*Saint John-Albert*): But these companies are not going to know each others rates.

Mr. SINCLAIR: They are not going to know their rates on the sale of potash?

Mr. BELL (*Saint John-Albert*): No, I am talking about the situation where there are carriers—

Mr. SINCLAIR: You see, Mr. Bell, the Canadian National Railways serve one potash mine. We will say it cost \$75 million to put down a two-shaft mine which produces 1.2 million tons of potash every year. We serve the others, and they are both competing in the market and we will say that the market happens to be offshore. Believe you me, there is going to be quite a bit of pressure on whoever is trying to charge one higher than the other because the costs will have to be reflected in the c.i.f. price in Japan or in the f.o.b. price at Vancouver and this quickly comes to the fore, and if he did not like it he would then say to the Canadian National Railways, or to the Canadian Pacific if we had an exclusive mine, "Build in", and then the two of us would be in a competitive position.

Mr. CRUMP, I would say there will be about 10 mines in Saskatchewan in 1970?

Mr. CRUMP: Ten are planned.

Mr. SINCLAIR: Ten. These mines are competing one with the other. I remember one time, Mr. Bell, people from the Okanagan thought they had a near monopoly position on apples but they forgot all about the apples that came from the Wenatchee Valley and Wenatchee apples started to move into western Canada, into Winnipeg, as against Okanagan apples. Therefore, I do not think that Canada is in an isolated economic situation such as you are describing.

Mr. CRUMP: With regard to potash, Mr. Bell, the best prognostication which we could make, with the capital investment which is going into Saskatchewan now and the production forecast for 1970-71, is that it would look as if there is going to be an over supply. How long will that last? Two, three, four years perhaps. That is going to be one of the most competitive industries in Canada.

Mr. BELL (*Saint John-Albert*): Well, of course, I am all in favour of competition and I realize that the economics may look after many cases but it

does strike me that there may be situations which will develop where the shipper may get a good rate but perhaps not the best rate on behalf of this valuable resource he has. I just wonder if there should not be some protection for the Canadian people. I have not available examples other than potash.

● (5.30 p.m.)

Mr. SINCLAIR: Let us take an example hypothetically that there was a case that a rate was established at such a level that the maximum potential of the shipper was not being developed, and as a result of that instead of having 1,000 men working he had 500. Is this what you are thinking?

Mr. BELL (*Saint John-Albert*): No, I am saying that he could continue with his maximum potential but some of the costs in this might be passed on to the people and lost in the Canadian economy and we would have, in your own words, a misallocation of our resources.

Mr. SINCLAIR: We would have a misallocation of resources in that case. I agree with you and I am not trying to say that this bill will make a perfect world. No bill will make a perfect world but under the existing law it could happen. What you are saying now could happen just as well under the existing law.

Mr. BELL (*Saint John-Albert*): May I just ask if you have any rough figures on this section; the non-competitive commodity rates, I think are 29 per cent, actually they are 29.6 per cent.

Mr. SINCLAIR: It is 29.6 per cent.

Mr. BELL (*Saint John-Albert*): I am wondering if you could give us a rough estimate out of that figure?

Mr. SINCLAIR: That is of intra-Canadian traffic. You understand that excludes all international.

Mr. BELL (*Saint John-Albert*): Could you give us any kind of a rough division of the weights in your own case between the 30,000 and the 30,000 above?

Mr. SINCLAIR: Could I? No. I am looking down here to somebody who could answer this.

Mr. CRUMP: Mr. Miller, could you give any division on the 30,000 and over 30,000? I think that is the question.

Mr. SINCLAIR: We cannot hear your answer.

Mr. MILLER: No, sir, we do not have any figures that divide our traffic by that classification.

Mr. BELL (*Saint John-Albert*): I will not press that now, but I think it would be fairly significant because this is the area in which there seems to be some fears.

Mr. SINCLAIR: Where, under 30,000?

Mr. BELL (*Saint John-Albert*): No, over 30,000.

Mr. SINCLAIR: Oh, a very large proportion of our traffic moves at over 30,000 pounds, Mr. Miller.

Mr. MILLER: Take one item in eastern Canada which moves quite a lot of traffic and the division there would roughly be 20 per cent under 40,000 pounds and about 60 to 65 per cent at 50,000 and 60,000, and there is a small group that moves it up as high as 100,000.

Mr. SINCLAIR: That is in eastern Canada but as soon as you go west you have to look at the capacity of the cars and you can see that the cars are getting bigger all the time to take care of these heavier loading commodities. All bulk commodities load very much heavier than 30,000 pounds. All of them—concentrates, metals, non-ferrous metals, cement—all bulk commodities load very much heavier than 30,000 pounds.

Mr. BELL (*Saint John-Albert*): Could I ask a question, Mr. Chairman, concerning this matter of appeals, and I hope I will not duplicate the questions Mr. Horner asked. I think in your brief you suggested you would like the extra definition "an interested person" instead of just saying "person" or "any person" in so far as these appeals generally are concerned. The C.M.A., for example, were here yesterday, and I put the question to them and they did not seem to be averse to it. I am not sure there was complete agreement but they though this might be all right; it would reduce the superfluous appeals and this and that. But in their brief they suggested something that made sense to me. They suggested that the burden of proof for a prima facie case be reduced, and I am wondering if you would have any serious objections to that. In other words, speaking generally, it might not be a bad policy to make it more restrictive as to who can appeal but the onus of establishing this prima facie case might be lowered. What do you think of that?

The CHAIRMAN: Suppose I let Mr. Sinclair take a look at the C.M.A. brief, Mr. Bell?

Mr. SINCLAIR: I think I understand perfectly. While I am reading that, Mr. Crump, maybe Mr. Burbidge would like to start and then I can read this in the meantime and discuss it with Mr. Crump.

Mr. F. S. BURBIDGE (*Vice-President, Rail Administration*): I think, Mr. Bell one of the purposes of this whole bill is to move the railways into a more competitive position in the competitive environment that exists, and you can have a regulatory climate which militates against that if you provide for too easy appeals. The first suggestion that we make is that "any person" in Section 317 and Section 338 (a), I think it is, be extended to "a person interested", but if you take out the provision for proving a prima facie case you, in effect, have made an appeal a little easier and you are perhaps introducing a situation where you are going to have delays through frivolous appeals. I do not know what the Canadian Manufacturers Association said. Were they saying that they did not want to have the requirement that there be a prima facie case proven in Section 217?

Mr. SINCLAIR: On page 4 of their brief that I have here—it was given to me by Mr. Macaluso—they say: "A person seeking to appeal an act or omission of a railway would, under the section as now written, be barred from such appeal unless and until he had established a prima facie case that the public interest had been affected prejudicially. It is submitted that an individual, a company or an industry could face insuperable difficulties in attempting to prove that the

public interest had been wronged, despite gross unfairness by a carrier in its treatment of one shopper compared to its treatment of another." I do not understand at all their use of "insuperable difficulties" because after all a prima facie is a pretty easy one to establish.

Mr. BELL (*Saint John-Albert*): In the House of Commons it is not easy.

Mr. SINCLAIR: Of course, we are not dealing with the House of Commons, we are dealing with a—I have to be careful with my language here—highly qualified regulatory tribunal with security opinion.

Mr. HORNER (*Acadia*): We have to decide whether we are going to sit tonight.

The CHAIRMAN: If we are not through by six I suggest we adjourn at 6 because we will be back at 8 o'clock, if the questioning is to go on further. I have here right now besides Mr. Bell, Mr. Pascoe, Mr. Rock, Mr. Schreyer and I have you, for the fourth time.

Mr. HORNER (*Acadia*): I do not care.

The CHAIRMAN: As I was saying, if the questioning is not finished by 6, then we will be here again at 8 o'clock.

Mr. HORNER (*Acadia*): It looks like you will be here at 8 o'clock. I will leave on the assurance that we will.

Mr. BELL (*Saint John-Albert*): Before we leave that I—

The CHAIRMAN: Depending on how long the other people spend questioning, you may come up before 6 o'clock. I do not know.

Mr. BELL (*Saint John-Albert*): I am thinking of the CPR. If there are any insuperable problems respecting their sitting tonight—

Mr. SINCLAIR: Insuperable problems in proving a prima facie case are not the same kind of insuperable problems we have been talking about.

The CHAIRMAN: It is a matter of sitting this evening.

Mr. BELL (*Saint John-Albert*): I will finish up. In your brief you almost show glee when you say that the carryover, the old unjust discrimination, is going to be removed. I, for one, am concerned that we make adequate provision for this appeal business.

Mr. SINCLAIR: It is rather unusual, Mr. Bell, if I may suggest it to you, to see the Canadian Manufacturers Association, who consistently in their pricing policies pay no attention to discrimination, just or unjust, suggest that the people who move their goods should have some restrictions in their pricing policies that they would be the first to contend against.

Mr. BELL (*Saint-John-Albert*): We have another committee looking after that part of it, Mr. Sinclair.

I just want to say this; I do not know what the definition of "interested person" is or exactly what you mean, whether it is a broad common law definition or something of that nature. I, for one, feel that this might be a suitable amendment, but I also similarly feel that for these interested people we have narrowed the field down and we are presumably just going to have ones

that are serious. We have eliminated all these frivolous complaints that might come forward. I feel that it may be a tremendous burden to establish this *prima facie* case the way it is set up and, if someone would call for a sensible amendment, I would support it to ease this onus on us.

● (5.40 p.m.)

Mr. SINCLAIR: But, Mr. Bell, a *prima facie* case before a regulatory tribunal is generally a pretty easy one to establish.

Mr. BELL (*Saint John-Albert*): Yes, but they are going to have to be tough and they are going to establish a precedent.

Mr. SINCLAIR: They will not be establishing precedents on the basis of what is a *prima facie* case in the public interest. The public interest is a growing thing like a tree. It has to be looked at from time to time.

The CHAIRMAN: Mr. Pascoe, you are next.

Mr. BELL (*Saint John-Albert*): I have one more question, but I will wait until tonight.

Mr. PASCOE: Mr. Chairman, I hesitate to break in on these strong arguments in regard to freight rates and so on, but before this meeting with the CPR officials concludes, I would like to ask two or three questions on a different line namely, rail passenger service, in which both Mr. Crump and Mr. Sinclair know I have expressed considerable interest. It is in their brief, therefore—

The CHAIRMAN: Because it is in their brief does not mean that it is in order, Mr. Pascoe.

Mr. PASCOE: It is in the bill, too.

The CHAIRMAN: Go ahead with your question.

Mr. PASCOE: When the CNR officials were here, Mr. MacMillan, the president to be of the CNR, said that in regard to their passenger policy the company's objective is the elimination of rail passenger deficits, not the elimination of the rail passenger business. I would like Mr. Crump or Mr. Sinclair to say whether they subscribe to that statement or not.

Mr. CRUMP: We take a somewhat different view of this, Mr. Pascoe. As you know, there has been a fairly sharply divided opinion between the C.N.R. and ourselves in regard to rail passengers. Perhaps you were here this morning when I mentioned this small quote from the presidential message on transportation to congress, where competition between modes of transport "if the volume was available" was referred to. Now, I certainly do not believe in ruinous competition. In this country we have fewer than 20 million people—or perhaps we have just turned the corner on 20 million on the unofficial estimate—and they are spread across 3,000 miles. I think it is manifestly ridiculous to try to compete for this small segment of business that travels by rail between two railways. I think the best example of this is between the two largest centres in Canada, which have a very high proportion of the population, namely, Montreal and Toronto. As you know, there is no competition there now; the Canadian National are serving it and serving it very well. I think this is a logical program to adopt.

Mr. PASCOE: Mr. MacMillan in his statement said that new equipment would be introduced, new services offered and so on. And you in your statement, in talking about capital expenditures of the C.P.R. said it was \$103 million for 1965 and this year it would be \$110 million. How much of that would you say is going into passenger equipment?

Mr. CRUMP: An insignificant amount. There is none for 1966.

Mr. PASCOE: So you are not improving your passenger equipment at all?

Mr. CRUMP: As a matter of fact, as you know, we have the transcontinental train the "Canadian" on and in 1953-54, we bought very advanced passenger equipment. That equipment is still, in my opinion, as good as anything in the world, but this does not go to the point that I think perhaps you and Mr. MacMillan may have discussed of the high speed jet trains. We have no intention of embarking on that program.

Mr. PASCOE: I take it from your statement then, that you are not too interested in pushing rail passenger service?

Mr. CRUMP: We have a fair sized passenger department, and moreover we have representatives all over the world selling passenger service, either by rail, water or air. We have not given it up by any means, but on the tremendous capital expenditure that is going to have to be made for high speed passenger service, we do not think that is the role of the Canadian Pacific.

I was talking to a chap yesterday afternoon who had a large part to play in the program that has been developed in Washington, of the appropriation of \$90 million for high speed passenger research. That is proposed to serve, what we call the northeast corridor, from Boston to Washington, and it was interesting to me that this gentleman indicated that perhaps it could be a viable service between New York and Washington, serving all of those very large cities in between, but not between New York and Boston. It is not just a question of putting money into passenger equipment; it is the untold millions that you have to put in the roadbed facilities in order to attain those speeds.

The CHAIRMAN: It seems to me that we are getting a little far afield on this passenger service. The bill deals with passenger service in the context of revenues and line burdens and subsidies for losses and I think, Mr. Pascoe, if you could get into that part of the bill that really is of concern.

Mr. PASCOE: I would like to get one more question in. This deals with section 314D, on page 25 of the bill.

Mr. SOUTHAM: Mr. Chairman, on a point of order, I think Mr. Pascoe is well within his rights. It is referred to in the bill; it is referred to in the brief.

The CHAIRMAN: Mr. Southam, Mr. Pascoe is still questioning.

Mr. PASCOE: This is in regard to branch lines I must admit, but it says:

... may recommend to railway companies the exchange of branch lines ... or running rights over branch lines or other lines of railway—

If you are going to almost get out of the passenger business as you indicated—

Mr. CRUMP: No, we did not say that.

Mr. PASCOE: Well, you have not agreed with the CNR, at any rate.

Mr. CRUMP: That is not unusual.

Mr. PASCOE: Would you see any possibility of having them run over your lines or you running over their lines?

Mr. SINCLAIR: Between Winnipeg and Moose Jaw, certainly not. We have a better train than they have and we provide better service.

Mr. PASCOE: I would agree with that, but I am just asking you now if there is any possibility of joint running rights over lines for passenger service?

Mr. CRUMP: It is difficult to say what will happen in the future, but there is already an example between Hamilton and Toronto where this is done, and has been done for years.

Mr. PASCOE: In regard to branch lines, the Minister of Transport, when he was speaking to the Committee on October 6, indicated that the succession of bumper crops in western Canada has changed the outlook with regard to the use of branch lines. Would you say that most of the branch lines now—I know you have not got too many that are not protected up until 1975—are operating pretty well with regard to wheat shipment.

Mr. CRUMP: I am afraid that would be too sweeping a statement to make. Certainly, with the anticipated wheat crop of 840 million bushels, the picture in the west has changed very much. How much more it is going to change, I do not know, but it depends upon the criterion that we take. I understand that the Department of Transport took, as a criterion, on the guaranteed line, those lines would move 50 thousand bushels per mile per year. This is the all important factor and grain moves from that particular section of the country. I am afraid it is too sweeping a statement for me to agree to.

Mr. PASCOE: Would you agree then with the arguments used by the MacPherson Commission?

Mr. CRUMP: We never did agree with the standards set on branch lines in the decision of the MacPherson Commission. If my memory serves me correctly, they indicated some 8,600 miles possible for abandonment, 4,300 for railways. We never had anything of that order in mind, only a fraction of it.

Mr. PASCOE: I would like to come back to freight rates and ask just this one last question. How will the elimination of the bridge subsidy of \$7 million a year affect freight rates across northern Ontario into the prairies and vice versa?

Mr. SINCLAIR: Under the legislation, over a period of three years, the rollback that was caused by that subvention may be reinstituted into the rate structure.

Mr. PASCOE: Do you mean that the rates will increase?

Mr. SINCLAIR: The rates that are paid by the shipper will increase.

Mr. PASCOE: Not the rate?

Mr. SINCLAIR: I would not even want to say that. In answer to you, the amount that the shipper would pay, which is now covered by government payments to the railways on his behalf and collected from others or collected

from him and others through taxes to pay the railways on his behalf, would then be a charge on himself.

Mr. PASCOE: The cost of the movement of goods will be that much higher?

Mr. SINCLAIR: No, the cost will not be any different at all; as is now happening, through taxation, the government raises money and \$7 million of that money is paid on behalf of those shippers whose goods are moving from east to west across the so-called bridge. In a period of three years, that will disappear and these rates then will reflect—the shipper will be carrying and paying that amount himself rather than paying only a part of it and having the government pay the other part on his behalf.

Mr. PASCOE: Yes, but the upshot of it will be that the consumer will have to pay, somewhere along the line, about \$7 million.

Mr. SINCLAIR: The consumer—and not an additional \$7 million because, let us assume that you, as parliamentarians, are able to reduce taxes by that amount so you will finish out even.

Mr. PASCOE: That is a thought.

The CHAIRMAN: It seems to me that this might be a good point to adjourn. Mr. Rock will be first on at eight. I will let you ask that short question, Mr. Rock.

Mr. ROCK: My questions may be short, but the answers may be long.

The CHAIRMAN: Mr. Schreyer, you have one question, I think, before one o'clock?

Mr. SCHREYER: I note that in the brief presented by the CPR there is no reference to the provision of the bill that would repeal the CP-CN Act. It seems to me that this might be significant because it was suggested at an earlier hearing of this Committee that significant cost reductions could be made for the railways if there were more nationalization, interuse of running of rail lines, and so on. Is this significant in your opinion?

Mr. SINCLAIR: The CP-CN Act came out of the 1933 hearing of the Duff Commission and it never was effective in bringing about the efficiencies that were contemplated for it. In our view and in the view of the royal commission, and in the view of many other people, that type of legislation which was depression legislation in its ultimate is not meaningful under our existing society and our Canadian advances.

Mr. SCHREYER: Mr. Sinclair do you then mean to say that no significant cost reductions could be effected if there were a greater interuse of lines and facilities by the—

Mr. SINCLAIR: They are not nearly as great as you think they are, Mr. Schreyer. A lot of people felt there were tremendous savings in these sharing of burdens and advantages by joint rights. They did not turn out that way and, indeed, they imposed rigidity that did not work out. The proposed law before us does make certain provisions for branch line join-ups and things of this nature which I think it would be much more effective to bring about the optimum use of the plant.

Mr. SCHREYER: I do not really know if my next question is one that you are intimately familiar with, but I believe that Mr. Hamilton said on more than one

occasion that in the case of a location in central Saskatchewan, grain is moved north 100 miles and then back south 100 miles by one of the railways when all this could be eliminated by the use of running rights over I believe it was the C.P.R. bridge and line. I cannot give you any examples but—

Mr. SINCLAIR: I am quite sure, Mr. Schreyer, that if and when this legislation is in effect you will find that the Canadian National will be asking for an adjustment of that situation.

The CHAIRMAN: We will adjourn until eight o'clock.

EVENING SITTING

THURSDAY, October 20, 1966.

● (8.05 p.m.)

The CHAIRMAN: Order, gentlemen; we know have a quorum. Just before beginning, I would like to point out that there was an error made in sending out notices for a meeting tomorrow afternoon at 3:30. There will be no such meeting. The notice should be for Monday afternoon at 3:30. Please ignore the notices sent out for tomorrow because there will be no meeting tomorrow. Would you like to begin, Mr. Rock?

Mr. ROCK: I would like to question Mr. Sinclair regarding recommendations to include the commuter service under section 314 (i) in order that the railways may apply for discontinuation of commuter service, as they can passenger service. This appears on page 10, paragraphs 48 and 49 of your summary.

Mr. SINCLAIR: I beg your pardon, would you please indicate the paragraphs again?

Mr. ROCK: I am referring to your summary on page 10, paragraphs 48 and 49.

Mr. SINCLAIR: We are not suggesting, Mr. Rock, that there should be provisions made in this bill for discontinuance. All we say is that they are not covered for discontinuance in the bill and in the light of that we are recommending that there should be a provision in the bill that the rates on commuter services should be compensatory.

Mr. ROCK: This is the actual idea. This is exactly the answers I am looking for, Mr. Sinclair, because I remember last summer questioning you on the commuter service on the lakeshore area and I asked whether this was what you considered an effective demand, and you said yes.

Mr. SINCLAIR: Yes.

Mr. ROCK: And I also asked whether you had the intention of discontinuing the service and you said no.

Mr. SINCLAIR: No.

Mr. ROCK: I also asked if you were making a profit there and you said yes, you were making a profit.

Mr. SINCLAIR: Yes.

Mr. ROCK: Of course, there has been a strike.

Mr. SINCLAIR: Yes.

Mr. ROCK: And possibly the profit that you have been making will disappear and therefore, you have asked the board of commissioners for a hearing in order to increase your rates.

Mr. SINCLAIR: Correct.

Mr. ROCK: Of course, there will be the hearings, but I do not want to get into that subject matter. In other words, you are asking to be compensated, rather than having to discontinue commuter service.

Mr. SINCLAIR: Correct.

Mr. ROCK: You want to have the same privilege as the passenger service.

Mr. SINCLAIR: Correct.

Mr. ROCK: I like the way you answer because I expected longer answers.

Mr. SINCLAIR: It is the way you ask the questions, Mr. Rock. They call for short answers,

Mr. ROCK: At the top of page 31 of the bill we have the relevant matters which the new board should consider before discontinuation of any of the passenger services. If we include the commuter service, these paragraphs a, b, c, and d, will also take effect. It seems one-sided because it gives every reason to discontinue without any regard to passenger or, the expression you use, effective demand. In other words, even if there is an effective demand and there is a loss, the board can say that the line should be discontinued. What is your opinion with regard to the suggestion I am making to the committee, to bring in another paragraph (e) which would read "the decline of passenger service". In other words, they have to take into consideration that there is a decline of passenger service and a decline of commuter service before they would recommend a discontinuation of the line.

Mr. SINCLAIR: Mr. Rock, what you are referring to is this. This section here, that you are referring to which is section 314 and one of the subsections of it, deal with a problem that is more than local. The reason the bill excludes commuter service from it is that they look upon commuter service as a purely local service, not affecting more than the locality in which the service is being given—it does not affect the public interest generally—and that is why they have excluded it. When they have excluded it, that is all right, but they should have at the same time made a provision there that commuter rates should be compensatory, in other words, the rates should be adjusted in light of the costs, so that the commuter rates are always making a contribution over variable costs. I think it would be inappropriate, if I may say so, to take a purely local service and put it in with a more than local service which is what they are dealing with in section 314.

Mr. ROCK: Yes, but if we do include commuter service, we will be treating it as passenger service.

Mr. SINCLAIR: No. What we are saying is that we recognize that commuter service is a special situation and we are not trying to bring it into this clause. All we are saying is, it should meet its costs and there should be a provision that commuter fares should be compensatory, because there is no provision for any losses being transferred to the national treasury. The reason there is no

such provision is because it is a local service. If it is not going to be continued at a loss in the national interest, then there should be a provision that they be compensatory. Of course, they could not, I take it, make a provision that any loss in the commuter service would be imposed upon a province or on a municipality, because that would be without their jurisdiction and so they do not deal with that problem.

All we are saying is that when you have commuter service they should maintain their compensatory nature. We think, with regard to the lakeshore in Montreal, with possible technological changes and adjustments of fares from time to time, that we can provide a good service—there is an effective demand for it—and it will return more than its variable costs. This is one service that Canadian Pacific hopes to be able to continue to provide in the passenger field.

Mr. Rock: Then in regard to paragraphs a, b, c, and d, concerning passenger service rather than commuter service, I must say that also there is no provision for the decline of passenger service; in other words, they do not have to prove the decline. Mr. Sinclair, when you wanted to discontinue the Dominion, you had to prove to us that there was a decline of passenger service.

Mr. SINCLAIR: You mean passenger requirements.

Mr. Rock: I am sorry, I mean decline of passenger volume. Now, do you not feel that we should also have as a relative matter the decline of passenger volume?

Mr. SINCLAIR: Well, you see, Mr. Rock, if you take a look at the preamble to subsections (a) through (d), they are not exclusive. They go on to say, in determining whether an uneconomic passenger train service or part thereof should be discontinued, the commission shall consider all matters that in its opinion are relevant to the public interest including, without limiting the generality of the foregoing. In other words, one of the things that would be relevant would be the volume of traffic, without specifying it; but on the ones they specify they want to make sure that the generality of the language would not be argued to exclude them as being irrelevant. Volume is obviously relevant. I do not think you need it from a legal drafting standpoint, and I am sure the law officers of the Crown likely had that in mind when they drafted it that way.

Mr. HORNER (*Acadia*): Mr. Sinclair, you and I were discussing the 150 per cent figure before. I asked you where it came from, and you said the MacPherson report. When it was suggested by the MacPherson report, was it railroad revenue in which they were interested?

Mr. SINCLAIR: No; I think, Mr. Horner, that they were looking at what would be fair and reasonable in all the circumstances. And you must remember—and I am sure you have it in mind if you have not overlooked it—that everything above variable does not mean profit by a long shot.

Mr. HORNER (*Acadia*): I realize that.

Mr. SINCLAIR: And they were taking a look at this, at the general field, where there was competition, and whether 150 per cent over variable was reasonable in the light of all the circumstances. This is a judgment figure.

Mr. HORNER (*Acadia*): I just want to read from the MacPherson report, volume II, page 102, in which it says:

We recommend therefore that a maximum rate be the variable costs appropriate to the movement as defined by the Board of Transport Commissioners, plus 150 per cent of that variable cost.

A little before that they say this: "—would not be detrimental to railway revenues at the present time."

In other words, I maintain that the whole centre paragraph of page 102 deals with the fixing and the reasons for fixing the 150 per cent. They were concerned not to set it too low so that it would be detrimental to the railroad's revenue.

Mr. SINCLAIR: I would not think so, Mr. Horner.

Mr. HORNER (*Acadia*): This is how I interpret this whole centre paragraph, and I do not want to spend ten minutes reading it.

Mr. SINCLAIR: No, you do not have to spend ten minutes. Look at the last sentence of the paragraph:

This we conclude is a reasonable share of the burden of fixed costs which traffic, designated captive under the criteria set out below, shall bear.

There is the judgment analysis and they think it is reasonable. Do you see that sentence?

Mr. HORNER (*Acadia*): Yes, I see that sentence.

Mr. SINCLAIR: And there is where they simplified their thinking.

Mr. HORNER (*Acadia*): I see that sentence, but I am still of the opinion they reached that conclusion because they did not want a detrimental effect on railway revenue. It says that. In the middle of the paragraph it says, "would not be detrimental to railway revenues at the present time."

Mr. SINCLAIR: That is one of the considerations, of course, but I do point out to you the way they take all the factors and conclude it. They say: We have looked at this; we have looked at many other things, and we conclude that it would be reasonable in all the circumstances.

Mr. HORNER (*Acadia*): That does not necessarily mean that I have to conclude that it is. I think, in reading that report, they reached that conclusion with a greater concern for railroads than for shippers.

Mr. SINCLAIR: They said the contrary.

Mr. CRUMP: May I interject here, Mr. Horner? Commencing in 1946 and up until the time that this report that you are quoting from was written, I was under constant cross-examination by the chairman of this committee, representing the province of Saskatchewan, and I never detected any concern in him for railway revenue.

Mr. HORNER (*Acadia*): I am just looking at the figures and interpreting them the best I can. Now, I want to go back to this word, "monopolistic". We have come a long way together here today, and I believe we can go a little bit further. You say the monopolistic position the railroads were in at one time has completely disappeared. I say it has diminished, but not completely disappeared. Now let us see if we cannot take it a little bit further. I am a westerner, and I

do like Mr. Sinclair. What is the definition in the MacPherson report concerning monopolies? What criteria do they suggest?

Mr. SINCLAIR: It is where there is no effective alternate and, indeed, as in 336, Mr. Horner, the drafter of this bill went further than MacPherson and put a more liberal interpretation on "captive" than MacPherson did. I do not know if you really had that drawn to your attention or noted it.

Mr. HORNER (*Acadia*): 336 is nothing; it might well be out of the bill. You and I agreed on that this morning.

Mr. SINCLAIR: Oh, no, I sure did not agree, I am sorry.

Mr. HORNER (*Acadia*): The record will say that. You said it will affect very, very few, and it will be rarely, if ever, used.

Mr. SINCLAIR: Yes, because I pointed out it was an umbrella situation, and you have to remember that.

Mr. HORNER (*Acadia*): This is what I am remembering. You see, it goes this way; we have now some protection on non-competitive rates. The onus is on you people to prove that non competitive rates have to be improved. When this legislation is passed, the onus is on my people, the shippers.

Mr. SINCLAIR: Do you know how we prove it, Mr. Horner? I think perhaps you do not know how we prove it under existing legislation. What we have is a formula, and as soon as we show that that formula is deficient in giving us those revenues, then we apply it horizontally across all traffic and go back where we cannot hold the increase.

Mr. HORNER (*Acadia*): Well, do not get me into horizontal aspects of this.

Mr. SINCLAIR: Well, that is the way we prove it under existing legislation.

Mr. HORNER (*Acadia*): This is a most unjust application of rate increases.

Mr. SINCLAIR: That is the way we do it under existing legislation.

The CHAIRMAN: Mr. Sinclair is saying that by statute that is how they have to do it.

Mr. HORNER (*Acadia*): Thank you, Mr. Chairman; your interpretation is accepted. This is how you have to do it, but do you not agree that the onus is on you. Under this new bill, where is the onus on you?

Mr. SINCLAIR: The onus on us under existing legislation is to prove an overall shortfall of revenue. That is all. Under the new bill any interested party—if the Committee so recommends and the law is changed—if he felt that there was an adverse public interest in any rate, would have an opportunity to bring that specific case forward.

Mr. HORNER (*Acadia*): But do you not agree with me that prior to this legislation the onus is on you; after this legislation the onus is on the shipper?

Mr. SINCLAIR: Once you establish a *prima facie* case, Mr. Horner, the onus shifts.

Mr. HORNER (*Acadia*): But you are saying once, if and after.

Mr. SINCLAIR: Talk to your neighbour and do not let me become a lawyer. Once you establish a *prima facie* case—

Mr. HORNER (*Acadia*): I am just trying to reach one degree more of agreement with you, Mr. Sinclair. Surely your desire is similar to mine. We want to agree, we want to negotiate, we want to find out where we are at. I am saying that, prior to the passage of this bill, the onus is on you to prove what increase is necessary, or what is the needed rate. After this bill passes, the onus is on the shipper. I just want a simple answer, yes or no, such as you gave—

Mr. SINCLAIR: The answer is No. That is not what the bill says. What would happen if this became law—and again I say I hope you accept our suggestion—is that an interested party would be able to come before the commission having established a *prima facie* case.

Mr. HORNER (*Acadia*): Who has to establish a *prima facie* case?

Mr. SINCLAIR: The shipper.

Mr. HORNER (*Acadia*): The shipper? Is not the onus on him, then?

Mr. SINCLAIR: Just a moment, please. Having established a *prima facie* case, then it is up to the person who is assailed by that *prima facie* case to rebut it, and the onus shifts to the railway company; because if they do not come forward, then automatically, having established a *prima facie* case—which is an easy thing to do, with all due respect—

Mr. HORNER (*Acadia*): My counsel and I have decided that it is a hard thing to do.

Mr. SINCLAIR: Well, ask him—

Mr. HORNER (*Acadia*): He is a shipper and you are a transporter, so I will take his word, because I am a shipper too.

Mr. SINCLAIR: —if the onus does not shift.

Mr. HORNER (*Acadia*): I see that you are not willing to reach any agreement with me on this question of where the onus is—

Mr. SINCLAIR: I would love to reach an agreement.

Mr. HORNER (*Acadia*): But I want you to know that I am still of the opinion that the onus is on the shipper after this bill is passed. You have not convinced me, while I have failed to convince you.

Mr. SINCLAIR: I am sorry, Mr. Horner.

Mr. HORNER (*Acadia*): I have one further question, and it concerns this monopolistic atmosphere in which the railroads operated.

It is my interpretation that a monopoly exists in the railways. I am a farmer and a very practical type of person; this is how my interpretation has evolved. I have not had too much osmosis from railroad experts.

Mr. SINCLAIR: Pardon?

Mr. HORNER (*Acadia*): Osmosis from railroad experts—I have not been able to glean or have seep in. However, it is my interpretation that a monopolistic condition exists when a common carrier; because of economic reasons is carrying 80 per cent to 90 per cent of certain goods. Certainly, there is always some condition—short haul, perhaps, or perishable goods, or something like furniture, which you said was a good example, because you have lost

the furniture trade—but why have you lost it? Because it is a kind of commodity that lends itself to trucks. Boxcars are rough and the furniture gets scratched and so on. There is always a small percentage—some particular shipper who is so concerned about it that he is always ready to pay that little bit extra to send it by air, or by truck, or to carry it on his back. I say, that I am using a practical application of the word “monopoly”, that a monopolistic condition exists when there is only one carrier, and that carrier, because of economic reasons, is doing 80 or 90 per cent of the business. In other words, he does not have any competition.

Mr. SINCLAIR: Mr. Horner, I could not disagree with you more markedly.

Mr. HORNER (*Acadia*): Well, we are on opposite sides in this argument. What does the MacPherson report say about this? I have not had time to re-read the report, but at page 106 or page 107 they say that the touchstone of the monopolistic situation is decided by there being only one carrier.

Mr. SINCLAIR: That certainly is a touchstone, if there is only one and there is no alternative, or the alternative is not an effective alternative.

Mr. HORNER (*Acadia*): We have heard all kinds of talk from you people today, and from the C.N.R. the other day, that you do not put that interpretation on a monopolistic situation at all; that it is the marketplace that determines whether there is a monopoly.

Mr. SINCLAIR: May I, with all due respect, Mr. Horner, say where you are getting off the track is that the mere fact that you ship all the cattle from north of Brooks does not mean you have a monopoly; it just means that you are the best drover in the country.

Mr. HORNER (*Acadia*): I do not accept that at all. I accept that you may be the best, or that I would be, in this case, but I would be the best because of economic reasons. This is why most of the goods, outside and around grain movement, travel by rail from the prairies. This is why there is interprovincial truck traffic across the prairies; it is because of distance. It cannot yet compete. You say it is competing and I say it is not competing, and that you still enjoy a monopolistic margin. I readily agree that it has diminished since 1960, since the founding of the Transportation Board today, but it certainly has not disappeared.

Mr. SINCLAIR: Then the government made a terrible mistake in building the trans-Canada highway outside our right of way and letting those trucks run back and forth, because they must be going empty. But they are certainly there.

Mr. HORNER (*Acadia*): All right, then. What percentage of the interprovincial traffic moves by truck?

Mr. SINCLAIR: Interprovincial traffic?

Mr. HORNER (*Acadia*): Yes. I do not mean that moving inside the province.

Mr. SINCLAIR: Exclusive of grain?

Mr. HORNER (*Acadia*): Yes.

Mr. SINCLAIR: And susceptible to movement at price? This is merchandise traffic without agreed charges? It is 40 per cent.

Mr. HORNER (*Acadia*): I do not buy that at all.

Mr. SINCLAIR: I have given you an answer.

Mr. HORNER (*Acadia*): It is a figure that cannot be proved. You people apparently cannot prove it. You do not know how many cattle move by rail and how many cattle move by truck. I would say that my figures are more accurate than yours. I say that 10 per cent of the livestock from western Canada moves by truck and 90 per cent to eastern Canada. I do not mean to the United States, or to anywhere else; but I say 90 per cent moves by rail.

Mr. CRUMP: You said interprovincial or international?

Mr. HORNER (*Acadia*): My figures are every bit as accurate as yours, because I have done a bit of research on this.

Mr. CRUMP: You include international traffic in that?

Mr. HORNER (*Acadia*): The quotation I was attempting to make is on page 113, at the bottom.

I regret to admit it but on this particular aspect we have gone about as far as we can do. I really am sorry that D.B.S. does not have more figures with regard to—

Mr. CRUMP: Do you recall what I said a little while ago, Mr. Horner?

Mr. HORNER (*Acadia*): —truck transportation and rail transportation. I certainly can, and I will say this with all due respect to you people, because you really want it, and this bill is really beneficial to railroads. But you have not convinced me, and set aside my fears, that it is going to harm and be very detrimental to the shippers.

Further to that, Mr. Sinclair spoke about folklore. Why are the provincial governments concerned? They are not shippers. They are really not interested in the folklore of the prairies, are they?

Mr. CRUMP: I rather think so, with the experience we have had.

Mr. HORNER (*Acadia*): Calgary will always have the Calgary Stampede. That will maintain the folklore out there for quite a few years to come.

Mr. CRUMP: Since 1946, Mr. Horner, the representations that have been made—

Mr. HORNER (*Acadia*): The provinces have spent millions of dollars since 1946, trying to hold freight rates so that they will not be detrimental to the economic and industrial development of that area.

Mr. CRUMP: But you said: Why were they interested?

Mr. HORNER (*Acadia*): Why are they interested? They are not shippers.

Mr. CRUMP: In legal fees.

Mr. HORNER (*Acadia*): Legal fees, my foot! They are interested because they want to see those provinces develop and want to see those provinces have equal opportunity with central Canada.

Mr. SINCLAIR: Do you know that one of the most distinguished economists from your university gave evidence in one of these cases and said that the way

to industrialize the packing house industry is to raise the rates on livestock to eastern Canada so that everyone will have to process them in Alberta.

Mr. HORNER (*Acadia*): Economists are great on theory. I do not agree with this for one minute. Economists sit in universities and rationalize things on paper. I am the man who has to move the goods, and there are a lot like me. This is why practical men rarely agree with some high-browed theorist.

Mr. BELL (*Saint John-Albert*): Mr. Sinclair, do you recall the point I was trying to make before supper? I have had a chance to look at these wires between the western premiers and the government, and I just want to ask one question or develop a point.

The Minister of Transport has suggested that there should be identification of this captive shipper and it strikes me, just thinking quickly about it, that the shipper I was talking about before supper, this fellow who is in a specialized range, with bulk cargoes and up above the 30 thousand pounds, the one who is going to do the separate private enterprise negotiation with the railway—will there be a case where he will ever come out in the open over this business, because would he not be penalized later in his negotiations?

Mr. SINCLAIR: I do not think so, Mr. Bell. I think that when you talk about "identification of a captive shipper"—I have not seen this in operation, but based on experience I have had in other things—I would think that the development of captive shippers will be somewhat empirical; that people will be coming forward and some of them will not meet the criteria, that others will come forward and will meet the criteria, and, over time, shippers and railways and public alike will be able to, more closely, define it; and in this practical world in which we live I think that may be the only way you can do it.

Mr. BELL (*Saint John-Albert*): You are talking about the great value of this eyeball-to-eyeball confrontation, and how you negotiate, and you both end up very happy. We are trying to say, or it is suggested, that this captive shipper will identify himself and come forward and say he is unhappy, that the railways are no good, and then you go through the appeals and the whole business, and then you sit down again—he is still a captive shipper—and you negotiate. He might at a later date.

Mr. SINCLAIR: He might; but, generally speaking, say, you were successful or he was successful, if you are going to continue to be in business you had better not carry that along. I learned a long time ago, and I am sure you have, Mr. Bell, that once the gong goes that is the end of the round, and you quit the fight right then.

Mr. BELL (*Saint John-Albert*): Politicians do not believe in that.

Mr. SINCLAIR: They practice an art, Mr. Bell.

Mr. BELL (*Saint John-Albert*): Just to show my heart is in the right place, as far as the CPR is concerned, I would like to ask, with respect to this transformation stage which will lead to the final termination of the payments in five years, or whatever it may be, if there was any negotiation on this, or was this arbitrarily decided by the government? Why is it that you are asking for a greater period of stretch out of the payments?

Mr. SINCLAIR: They certainly did not negotiate it with us. We saw it, when you did, when it was filed.

Mr. BELL (*Saint John-Albert*): Have you any knowledge of why the government took this figure in this period?

Mr. SINCLAIR: I know why they took the figure, but why the period, no, I do not have any idea.

Mr. BELL (*Saint John-Albert*): You paint a fairly pessimistic picture. You are after more money, I notice here. I hope the C.P.R. stock does not tumble; but, at least they give you credit for being more frank about the picture than the C.N.R. because I think they were more straightforward than the C.N.R.

Mr. NOWLAN: Mr. Sinclair, I would like to ask a couple of questions. The first one is very specific, and very provincial and parochial but in view of the fact that I was not here when the listing was handed out on the eastern lines, since the historic Dominion Atlantic railway does not appear on it, that line is frozen at least until 1975?

Mr. SINCLAIR: Correct.

Mr. NOWLAN: Can we assume from that, or would it be fair to ask, that there will not be any cutback in service on that line so that you do not get into this situation of, perhaps, depressing the traffic so that in 1975 it will be open to an application, or be more prone to an application?

Mr. SINCLAIR: No, we are—

Mr. NOWLAN: I am asking a very hypothetical question.

Mr. SINCLAIR: No; we will look after that traffic from the valley. We are very anxious to get more of it down there, Mr. Nowlan.

Mr. NOWLAN: That is fine. Leaving that particular subject, which is close to my heart and to my constituency, I would like to ask about paragraph 25 of your summary. In the last sentence, relating to the Maritimes freight rates freeze for two years while this transportation study is on, you mention that it is essential that this period not be extended. I take it, in reference to your submission, that the reason that it is essential is because of the reduction in rates that are preserved, and once that freeze is lifted those rates are going to go up.

Mr. SINCLAIR: They likely would, because, as I say, they are in the same place and so many years have gone by and costs have gone up; but one of the other reasons why we say it is essential is that there is a study under way now, and we believe in putting limits on it and getting the study finished. We think two years is enough time in which to do the study.

Mr. NOWLAN: I appreciate that, and while the study is on and the freeze is on, there is an uncertainty there for development of any type of shipper who wants to develop. I can appreciate that. But basically the reason it is essential this period not be extended is because of the rate structure and the fact that it is depressed and will go up when the freeze is off?

Mr. SINCLAIR: Unless there is some other alternative comes out of this study on account of economic conditions or distance from markets that the—

Mr. NOWLAN: I am interested that you mention that, because so far under this bill, unlike the Crowsnest Pass, there is not that other factor written into this bill to preserve?

Mr. SINCLAIR: That is correct.

Mr. NOWLAN: One further question, if they come off, and unless there is another section written into the Bill to take care of this economic consideration, would you, as a railway man with your experience, anticipate the increase of traffic to the select areas in the Maritimes to increase the 30 per cent and within the select areas to increase the 20 per cent as set out in the memorandum prepared by both the C.N.R. and the C.P.R.?

Mr. SINCLAIR: In view of some of the industry that is fixed there an increase of that magnitude would have to be applied extremely gradually if it were to be applied to that extent, or there would be dislocation.

Mr. NOWLAN: You came to my next question. I said I have one more question. I thought it would be supplemental, depending on your answer.

The combined brief submitted by the CNR and yourselves indicates that the Maritime freight rates have allowed a reduction of 30 per cent traffic moving to the select area and 20 per cent within the select area. Is that correct?

Mr. SINCLAIR: That is correct.

Mr. NOWLAN: If everything else stays equal and the freight rates are lifted, is it not reasonable to expect then that the increase, in all probability, would at least be the 30 per cent to the select area and 20 per cent within the select area as set out on page five of the railway freight rates memorandum?

Mr. SINCLAIR: I have not heard that the government is going to repeal the Maritime Freight Rates Act, and what you are saying would require not only that this study be not completed and that nothing should arise from it, but also that the government introduce legislation to repeal the Maritime Freight Rates Act; because only by the repeal of the Maritime Freight Rates Act could they do that. That would mean another Bill in the House, and knowing some people from the Maritimes I think that would be a rather difficult one to pass.

Mr. NOWLAN: You will agree with me, or perhaps you will not, unlike my friend from Acadia here to the left, that certainly such an increase, even applied gently, would be quite a severe blow to the fledgling economy in that area. We have no other factors written into the bills.

Mr. SINCLAIR: I would agree with you.

Mr. OLSON: I would like to address a couple of questions to either Mr. Crump or Mr. Sinclair. As you read this bill the application of Section 336 is the only recourse or protection that a shipper would have if he was unable to negotiate what he thought was a satisfactory or a fair rate with the railroad.

Mr. SINCLAIR: No.

Mr. OLSON: What other recourse is there?

Mr. SINCLAIR: If the rate—and he was a party interested and he would be if he was a shipper—was such that he thought it adversely affected the public interest he would have recourse.

Mr. OLSON: Yes; assuming that he thought that he would have to come before this new transportation commission and argue that he had a case; that the public interest was being affected and that he had no alternative effective and competitive service.

Mr. SINCLAIR: No, that is a different thing. You are coupling the two. If he came on the other basis he would not be coming under Section 336; he would be coming under the other Section—Section 317. If he came under 317 he would not rely on Section 336.

Mr. OLSON: Let us assume that he was unable to negotiate a rate which was satisfactory to him, and he felt that he was not getting a reasonable rate, he would then have to plead the case under Section 336 to have this transportation commission fix a rate for him, would he not?

Mr. SINCLAIR: No, sir.

Mr. OLSON: What other way is there to fix a rate?

Mr. SINCLAIR: If he became a captive shipper, and could meet the criteria of a captive shipper, and he made out that case, then he would get the range of the rate first and then he would decide either to go on, or as a result of that he would likely have further negotiations. If he still was not satisfied he would go on and have the commission fix a rate.

If he did not come within the criteria of a captive shipper, and was dissatisfied with his rate, he would rely on the adverse effect to the public interest of the rate which the railways were asking him to pay and he would then make his case under the other section of the bill.

Mr. OLSON: Under the bill which is before us now, if all these other negotiations and so on failed, then he would have to come before this commission and apply, and ask the commission to set a rate which is spelled out in Section 336(2), which states as follows:

—the Commission may after such investigation as it deems necessary fix a rate equal to the variable cost of the carriage of the goods and an amount equal to one hundred and fifty per cent of the variable cost,—

Mr. SINCLAIR: Well, you see, that is wrong. Would you mind turning to page 34 of the bill and look at subsection (3) of Section 317 which reads as follows:

If the Commission, after a hearing finds that the act, omission or result in respect of which the appeal is made is prejudicial to the public interest, it may make an order—

And “may” in that kind of a connotation is a categorial imperative “may”. Read it as “shall”. “It shall make an order requiring the company to remove the prejudicial feature in the relevant tolls”. That is rates. Do you see that?

Mr. OLSON: You are talking about a prejudicial feature. Now, this would assume that he is getting a different rate from someone else.

Mr. SINCLAIR: No, no—or the rate was too high.

Mr. OLSON: The rate issued was too high?

Mr. SINCLAIR: Yes.

Mr. OLSON: What do we have Section 336 in there for if there is all these other recourses?

Mr. SINCLAIR: Because this enables him to establish that he is a captive shipper. Even though he could not prove it was contrary to the public interest

or anything else, if he is a captive shipper and has no effective alternative mode of transportation he gets an automatic statutory rate.

Mr. OLSON: This, of course, is the final recourse in so far as setting the maximum rate control is concerned.

Mr. SINCLAIR: That is the final recourse for maximum rate control for captive shippers.

Mr. OLSON: It is my opinion that this Committee and the House of Commons ought to know what the rate will be, or what the effect will be, on the rate if any shipper is obliged or required or chooses to have the application of the provisions of Section 336. I am going to ask you once more if you could provide us with the variable costs on a number of specific items.

Mr. SINCLAIR: I would like to say "Yes", Mr. Olson, but the reason I say, "No", is—and I hope you understand—not that we are adverse to making that information available but we think it would be highly prejudicial to the railway industry, to the shippers and, therefore, to Canada because it is going to get us into all kinds of trouble in carrying on a very essential part of the transportation of this country. That is the reason and the only reason why we say "No."

Mr. OLSON: Mr. Chairman, in view of the answers we have received from the CPR and from the CNR before, I want to make the following motion and then I will speak to it afterwards.

I move that the president of the Canadian Pacific Railway be called before the Standing Committee on Transport and Communications of the House of Commons and that he be required to provide the following information:

- (1) (a) the variable costs of the carriage of a 30,000 pound carload of potash from Esterhazy, Saskatchewan to Vancouver, British Columbia.
- (b) A carload of potash carried in the weight of carload most commonly carried from Esterhazy to Vancouver.
- (c) A 30,000 pound carload of steel sheets from Hamilton to Edmonton.
- (d) A 100,000 pound carload of steel sheets from Hamilton to Edmonton.
- (e) A 30,000 pound carload of chemical fertilizer from Medicine Hat to Vancouver.
- (f) A 100,000 pound carload of chemical fertilizer from Medicine Hat to Vancouver.
- (g) A 30,000 pound carload of lumber from Kamloops to Winnipeg.
- (h) a 30,000 pound carload of sulphur from Pincher Creek, Alberta to Vancouver.
- (i) A 30,000 pound carload of dressed beef from Lethbridge to Montreal.
- (j) A carload of dressed beef carried in the weight of carload most commonly carried from Lethbridge to Montreal.

All of which would be carried on the Canadian Pacific Railway.

The CHAIRMAN: It is moved by Mr. Olson that the President of the Canadian Pacific Railway be called before the Standing Committee on Transport and Communications of the House of Commons and that he be requested to provide the following information:

1. The variable cost of the carriage of:

- (a) A 30,000 pound carload of potash from Esterhazy, Saskatchewan to Vancouver, British Columbia.
- (b) A carload of potash carried in the weight of carload most commonly carried from Esterhazy to Vancouver.
- (c) A 30,000 pound carload of steel sheets from Hamilton to Edmonton.
- (d) A 100,000 pound carload of steel sheets from Hamilton to Edmonton.
- (e) A 30,000 pound carload of chemical fertilizer from Medicine Hat to Vancouver.
- (f) A 100,000 pound carload of chemical fertilizer from Medicine Hat to Vancouver.
- (g) A 30,000 pound carload of lumber from Kamloops to Winnipeg.
- (h) A 30,000 pound carload of sulphur from Pincher Creek, Alberta to Vancouver.
- (i) A 30,000 pound carload of dressed beef from Lethbridge to Montreal.
- (j) A carload of dressed beef carried in the weight of carload most commonly carried from Lethbridge to Montreal on the Canadian Pacific Railway.

Mr. OLSON: Mr. Chairman, we are being asked in this legislation to provide a maximum rate formula which will be the last recourse so far as any shipper is concerned if he is unable to negotiate a satisfactory rate with the railway involved and in this case, the Canadian Pacific Railway. It seems to me that if we are going to pass this legislation with any knowledge of what the effect of using this formula involved is going to be we have to have at least a sampling of some of the variable costs which will get into the formula and into the calculations. It seems to me that it would be irresponsible for the members of this Committee to recommend to the House of Commons that they pass legislation purporting to set out in maximum rate formula that will be an ultimate protection for the shippers in this country who, after all, are the same people who are involved in expanding the economy and so forth, without knowing what the effect or the application of the formula would be.

If you look at section 336 on page 42 of this bill, it clearly sets out that the variable cost of the carriage of goods is going to be the major factor in the calculating of what a maximum rate will be, providing it is necessary for anyone to invoke these provisions of this bill for the protection of the public interest and for the protection of shippers generally.

So, Mr. Chairman, as I said, I think it would be irresponsible of this Committee to recommend to the House of Commons that we pass a bill, the application of which is still an unknown factor. We have no idea at all what will happen to the rates of anyone who falls into this category. For example, we had before us yesterday representatives of the Canadian Manufacturers Association who had done some calculating and they told us that in so far as the figures that they could gather are concerned—and there was very, very little of this available

to them in so far as the Canadian scene was concerned, if I may so describe it—they did try to take these variable costs which had been supplied to the Inter State Commerce Commission in the United States for like commodities moving over essentially the same terrain for the same distance, and they found that on iron ore, for example, the maximum rate, using the formula that is set out in section 336, in one case would have been \$14.64 per ton. Yet, Mr. Chairman, the rate in effect today for the carriage of that iron ore is \$2.68 per ton. There were a number of other instances. I suggest to you that a formula that uses a 30,000 pound carload which is fictitious in most respects because it does not apply to the realistic weights of carrying iron ore concentrates or potash or lumber or fertilizer or sulphur and many, many other commodities as far as that goes, where this 30,000 pound weight is fictitious.

Now, if we set a rate based on the variable cost of a 30,000 pound car and then add 150 per cent to that to get a weight per hundred pounds, then allow the railways to charge that rate per hundred pounds when they move the commodity and 100,000 pounds or even 140,000 or 180,000 pound car, Mr. Chairman, it is no protection at all. There is a fictitious wish put in for one thing, in my opinion.

I think, without going into a whole lot more detail—and I have enough notes here that would enable me to talk for an hour about it—that we have a responsibility, a very severe responsibility, to make sure that we know what the result is going to be of any legislation which we are being asked to pass. Mr. Chairman, because of the provision of a variable cost plus, as far as maximum rate control is concerned, I think we need to know what those variable costs are or we are not fulfilling our responsibilities to the general public.

The CHAIRMAN: Mr. Olson, a seconder will be required.

Mr. SCHREYER: I second the motion.

Mr. BYRNE: There is a favourite word that is used by hon. members sometimes in the house, namely, that we seek to emasculate the bill or the question before the house. It seems to me that this is an appropriate way of describing the motion that Mr. Olson has now put before the Committee.

There have been years of study put into this question of relieving the railways of domination or direction by parliament or by the government to give them the opportunity of competing in the transport market. Now, I think the key to the question is, and I am sure that Mr. Sinclair has said, as well as Mr. Gordon, that they have no objection whatever to making information available to the commission that will be determining these matters. To make this information available to the general public which, of course, would make it available to competitors, would simply be impracticable. I believe this afternoon Mr. Schreyer, who seconded this motion, himself said that he did not believe it would be appropriate to have information made available to competitors who did not come under the jurisdiction of this bill.

In Mr. Pearson's wire to the premiers he said this, and he is referring to the question of the rates to non-competitive or captive shippers: "First, it is an objective of the bill to enable the railways to become as competitive as possible with other forms of transport and there is a real problem about requiring them to furnish for public use proprietary information which may weaken their competitive position if it is disclosed. The other difficulty is that the Bill C-231

has now been approved in principle and referred to a parliamentary committee", and so on.

The key to the whole problem is that we are endeavouring with this bill to make the railways and other modes of transportation competitive on an even basis. The bill does set up a commission which will be charged with the responsibility of holding court and determining what is just and fair. I think that Mr. Olson should reconsider this motion, but in any event, the Committee should turn it down completely.

Mr. ALLMAND: Mr. Chairman, I listened to Mr. Olson's arguments and a lot of what he says, I must admit, makes very good sense. I also began to read these documents which were given to us today, this correspondence with the premiers in the west. I did not read it all because I have not had the time and a lot of the things they say make good sense. Now, having said that, I heard what the President of the CPR had to say and I admit that if his company alone reveals this information, it puts them at a disadvantage. I am on the prices committee upstairs and there we accepted the principle that if the parliamentary committee wants information in order to assess a situation they have a right to get it. But in that situation upstairs, in the prices committee, we had all the competitors coming in one after another and we were going to make them all reveal the same information so they would all be in the same position. I do not know if we are supposed to meet tomorrow, but I was wondering, if we had a little time, whether we could read all this correspondence so we could get the arguments from both sides, or, I would like to hear the Minister, Mr. Turner, give us a fuller explanation of the position of the department with respect to the bill, because there are two positions that have to be compromised here, one way or another. There is some good on one side and some good on the other side. I am not in a position to vote yet. I would like to hear more.

Mr. OLSON: Mr. Chairman, I assure you that a similar motion will be made respecting the CNR but there will have to be different points because the CNR does not run into all of these points.

Mr. ALLMAND: Yes, but there are also truckers, Mr. Chairman, too. There are a lot of competitors of the CPR who would use this information, it would seem to me. And I would just like to hear a fuller discussion of this or else let us put it off for a day or two until we can read all the arguments on both sides.

Mr. OLSON: Well, Mr. Chairman,—

Mr. ALLMAND: Would the Minister be willing to say something on this matter?

Mr. TURNER: Well, Mr. Chairman, I respect the integrity of the Committee and I do not think I should speak unless the Committee invites me to speak because I am not a member of the Committee. I have no right to speak, representing the Minister, unless I am invited by the Committee. So I am at the disposal of the Committee.

Mr. ALLMAND: Well, I think it would help to elucidate matters myself if the Committee did—

The CHAIRMAN: Well, we will hold the Minister for the time being and we will go on to Mr. Bell.

Mr. TURNER: I am prepared to speak but only if it is within the discretion of the Committee. I do not consider I have the right to participate in the argument unless the Committee allows me.

The CHAIRMAN: Mr. Bell?

Mr. BELL (*Saint John-Albert*): Mr. Chairman, the subject of this motion is the one that goes to the crux of our whole worries about the bill and questions all day long by all members who have tried to ascertain different bits of information. I think that we would favour—most of us here—a delay on this. I have not been on the Committee for two or three years now but it used to be that both major parties, at least, honoured the confidentiality of the information of the railway companies. This was upheld by decisions, as I recall. There was one time, I think, where there was an order made to do something but generally the precedent, as I recall it, has been that we honour any information that the railways themselves declare to be confidential and detrimental to competition and so on. This would be an entirely new departure. Whether we could even do it, whether we have the authority to do it, I do not know, but even hypothetically I think we should be responsible enough to go into the whole background and find out just what we can do and what would be accomplished. Therefore I think most of us would favour suspending this motion until we have a chance to consider it. It might be that other methods would satisfy us. It might be that some of the information could be given on a confidential basis to in camera hearings and the like. I, for one, am not prepared and would not want to vote on this tonight in an irresponsible way. But, I do feel just as strongly as Mr. Olson that we have to continue to try and get to the bottom of the serious part of the bill.

The CHAIRMAN: Well Mr. Bell, also the problem of the Chair when this motion was put here was the authority of this Committee and of the Chair to accept the motion. I certainly would like to hear more on it as far as our authority is concerned. Mr. Deachman?

Mr. DEACHMAN: Mr. Chairman, it seems to me our function as a Committee is not to extract from this carrier or any other carrier, publicly, its cost data which are the tools of its trade, but to set up a commission which has the capability of comparing rates, and of comparing rates without disclosing the cost data of the carriers which it is comparing and which must be kept private if these people are to remain on any kind of a competitive basis. We must first establish a commission that has that capability and put our trust in that commission. I think if we turn to page 54 of the act, item 387B.(1) we find the commission does precisely what I am suggesting.

The Commission shall by regulation prescribe for any of the purposes of this Act the items and factors, including the factors of depreciation and the cost of capital as provided in subsection (1) of section 387A, which shall be relevant in the determination of costs, and, to the extent that the Commission deems it proper and relevant to do so, the Commission shall have regard to the principles of costing adopted by the Royal Commission on Transportation appointed by the Order-in-Council dated the 13th day of May, 1959, in arriving at the conclusions contained in the report thereof, and to later developments in railway costing methods and techniques and to current conditions of railway operations.

Well, if this does not provide the commission with tools necessary to compare rates and to make decisions on behalf of the public, I do not know what does, Mr. Chairman. I think with this in the bill it is not necessary for us to do what Mr. Olson suggests, with all respect, to drag out costing figures which are the tools of the trade of public carriers and to make them public information to their disadvantage in the competitive field.

The CHAIRMAN: I have Mr. Rock and Mr. Schreyer.

Mr. ROCK: Mr. Chairman, the maximum rate formula will actually vary and change from year to year depending on the cost of strikes, wage increases, and so on. Now, last week the CNR officials showed the members of this Committee, by a slide projector, the system they use to arrive at their variable costs. I believe at that time Mr. Olson was not present. He came in later on. Therefore, I would suggest that Mr. Olson should first, wait until the minutes of that meeting are printed, which contains this information. I believe the slides will be printed and probably he will change his mind because then he will know the way in which one of the companies arrive at variable costs. At the same time, during that meeting, there were questions asked of the CNR officials on whether they believe that the CPR possibly use the same methods to arrive at their variable costs. I would like to ask, since some of the officials of the CPR were present, Mr. Sinclair whether they more or less use the same system to arrive at the variable costs?

Mr. OLSON: Mr. Rock, for your information, I was present when those slides were shown. Maybe I do not understand them but anyway, I was here.

Mr. ROCK: I saw you come in just at the end of the show, Mr. Olson.

Mr. OLSON: Well, I do not care, I was here from the first slide to the last slide.

The CHAIRMAN: Order, please. That is not in question at the present time. Mr. Rock if you would confine yourself to the motion before us, it would help. I do not think we should question who sets variable costs. We have a motion before us and I want to hear representations on that motion.

Mr. ROCK: Yes, yes; that is exactly what I am doing. We are not asking whether it is out of order or not out of order. This is not a debate.

The CHAIRMAN: That is true.

Mr. ROCK: Well, I am in order.

The CHAIRMAN: I did not say you were out of order. I just said I prefer hearing your representations on the motion.

Mr. ROCK: And I am asking Mr. Sinclair with regard to the slides that were shown and explanations given by the CNR whether the CPR use more or less the same system to arrive at their variable costs?

The CHAIRMAN: Mr. Sinclair?

Mr. SINCLAIR: Mr. Chairman, yes.

Mr. OLSON: Mr. Chairman, on a point of order, I have been thinking about this and a debatable motion is not the same kind of procedure as taking evidence from a witness.

The CHAIRMAN: Well, I agree with—

Mr. OLSON: The procedure in all of these Committee meetings is the same as in the House of Commons, that it is the members who make the motions.

The CHAIRMAN: The answer to Mr. Rock's question was yes, anyway. Mr. Schreyer?

Mr. SCHREYER: Mr. Chairman, I seconded the motion and I would like to indicate why.

The CHAIRMAN: Would you speak up please, Mr. Schreyer?

Mr. SCHREYER: Yes, Mr. Chairman, I said that I seconded the motion and I would like to indicate why. There are a number of reasons. Mr. Byrne is right when he said that earlier today I made the statement that I felt it was wrong for one mode of transportation to be required to reveal critical data and leave other competing modes of transportation out of that requirement. But, it does not follow from there that all modes of transportation should be exempt from revealing certain required data. Rather, what should be done is to have trucking, in this case the competing mode, brought under the same provision.

Obviously there are conflicting rights before us. On the one hand we have the proprietary interests or property rights of the railway companies, and on the other hand the right of this committee and of parliament to get as much information as it deems necessary in order to act on behalf of the public interest. It does not seem to matter much what political party one is from because it seems to me this is the way the question of the dilemma has to be resolved. We have before us telecommunications from provincial premiers, one Conservative, one Social Credit—I am speaking of the New Democrats—and the point of view in all three cases seems to be that the propriety rights of the railway in this particular regard must give way to the public interest. How can this committee work on behalf of the public interest? How can it evaluate in any definitive way the potential effect of this legislation unless it has this critical data before it?

It is all very well to say, as Mr. Deachman has said, that we should put our trust in the commission which is the regulatory agency. But I want to suggest to him that if this were the United States, the legislative committee of Congress simply does not take that attitude and I do not think we should either.

The CHAIRMAN: But, Mr. Schreyer, we work under different rules.

Mr. SCHREYER: I know, Mr. Chairman, but in this telecommunication we have this statement by the Minister of Transport in reply to the premier of Manitoba setting out that one of the two reasons why the critical cost data is not being forwarded to the provincial governments is because the matter is before a parliamentary committee; the implication being that the parliamentary committee will be provided with this data first. I simply cannot understand on what basis we are proceeding, because another committee of the house has required witnesses who were owners of property to appear before it—in this case chain stores—to reveal certain basic information relative to cost prices and profits. If one committee of the house can do this, surely it follows that another committee of the house can do the same.

I want to be fluent on this point, that if this committee is prepared to hand in a report to parliament to the effect that it was not in a position to fully evaluate the legislation and its potential effect because of the fact that certain

critical data was withheld or not brought before it, then I would not object too much. Parliament could then decide what it wanted to do. Unless we are prepared to make it clear to parliament that this committee was not in a position to make this kind of evaluation, then we should simply stop fooling ourselves that we are able to make any kind of proper evaluation here.

There has been a lot of talk, questioning, and cross-examination with respect to clause 336 and the definition of captive shippers. One of the reasons why we had this lengthy cross-examination was because there is simply no way to provide the kind of information we want without going into specifics such as cost data, and without taking a case study method approach. I feel in the end that if we really want to do our job we will have to adopt a case study method approach. We can only do that, of course, if we have precisely the same data that Mr. Olson was asking for in this motion and which the premiers of Alberta and Manitoba are asking for in their communications to the Prime Minister.

The CHAIRMAN: I want to bring to the attention of the committee and Mr. Olson that under Standing Order 59 motions are not required to be seconded in committee of the whole but this rule does not apply to standing or special committees where every motion must be seconded.

Mr. TURNER: I want to have it clear before I give the views of the Minister of Transport that I have the unanimous consent of the committee, because I am not a member of the committee.

The CHAIRMAN: The ministers come here to help out the committee, so I do not think you will need unanimous consent. You are welcome to go ahead because it would be freely given anyway.

Mr. TURNER: I think the argument has been adequately stated by Messrs. Byrne and Deachman. The substance of the minister's position is that in revealing the ingredients of variable costs or of costs before a committee of parliament or before the Board of Transport Commissioners or before the eventual Canadian Transport Commission, would be placing a carrier at a competitive disadvantage with respect to other carriers, not only in respect of the same movement but in respect of similar movements. This disadvantage would not only be inflicted upon a railway carrier but, as Mr. Schreyer has quite adequately pointed out, it would affect truckers and other modes of transport as well. It would open up the whole basis of cost as an element in competitive position as between all modes of transport if a parliamentary committee were to insist on this procedure.

This is my recollection of the rules and only my recollection and, as Mr. Bell has stated, this has come up at other times before parliamentary committees, and the Committee on Transport and Communication have always interpreted public interest as not going so far as to militate against any particular carrier so as to expose his competitive position, and this committee in the past has always so ruled. I have appeared several times before the Board of Transport Commissioners, as Mr. McGee knows and because the railways are so well represented, and have been over the years, I always appeared against the railways and never succeeded in persuading the Board of Transport Commissioners to yield on that particular rule. Although I would not admit it before that forum, there was considerable good sense in protecting the cost position of one carrier as against another. The Board of Transport Commissioners—and I should

imagine the contemplated Canadian Transport Commission—would have jurisdiction on a confidential basis to acquire, not for publication but for its own evaluation, all ingredients of the variable cost factors. What parliament would do under this bill would be to give this commission the responsibility accorded by parliament to evaluate those costs and to establish whether those costs were legitimate or not and were properly allocable to variable rather than indeterminate unspecified costs.

I want to suggest also to the committee that in the great majority of cases most of the movement contemplated by rail or by truck will be moving at far less than the maximum rate envisaged under the captive rate section, so we are not really involving a major part, or anywhere near a major part, of the transport movement contemplated either by rail or by truck. The position of the Minister of Transport is that the public interest should not be interpreted in such a way as to compel a carrier, whether the carrier be a railroad or a trucking firm, or a commodity pipeline, for that matter, to jeopardize its position by being forced to publish costs either before a parliamentary committee or eventually before the Canadian transport committee and so weaken its position in that respect. That is the Minister's position but, of course, it is in the Committee's hands.

Mr. HORNER (*Acadia*): Part of what the Minister said I accept, and other parts I do not. Mr. Deachman tells me that—and he read from page 54 of the bill, clause 387—when that comes into effect the bill is in effect. In other words, it is too late. The horse is out of the barn.

Mr. DEACHMAN: Mr. Chairman, we will have done precisely what we are supposed to do as a Committee. We are not supposed to become a commission, develop a team of cost accountants and attack this thing from this Committee. We are supposed to see that we establish a commission that has that capability and can do it and, at the same time, protect the competitive interests of carriers.

Mr. HORNER (*Acadia*): You accept your responsibilities in a slightly different manner from me.

Mr. DEACHMAN: I do.

Mr. HORNER (*Acadia*): I interpret my duty here as to examine this legislation—examine it fully—and no fooling around with the intentions of this legislation. Now, it is difficult for me to know the ramifications fully without having some insight into the methods of costing. Now, Mr. Deachman says my answer is here. I say the bill is already passed then, before I fully realized the ramifications of what I thought, which is a negative way of accepting legislation in any case. Now, the Minister stated that he questions whether this Committee has the right to demand—

Mr. PICKERSGILL: Oh, it has the right, but—

Mr. HORNER (*Acadia*): We accept that, then. We agree that it has the right. While I may at times appear to be an enemy of the C.P.R. today I like them; they have done a good service, and they do travel and haul a lot of freight through the prairies. At times I think their service could be improved. But, on the other hand, I see no harm—and I want you, Mr. Chairman and the Minister to consider this suggestion. My first suggestion would be to hold this resolution over so that its ramifications can be considered by all members of the

Committee, and especially by the Chairman and the C.P.R. We are a close-knit hardworking group in this Committee, and this bill is going to have mammoth effects upon future railway operations in Canada. So, let us not treat it lightly.

This is the first major revision of the Railway Act, going back to I do not know how long, but for a good many years, in any case. So let us not treat it lightly. Let us look at it carefully and examine it carefully, and I would suggest to you, Mr. Chairman, and to the Minister, also, that you consider this motion and consider perhaps the possibility of us having an in camera meeting—no fuss, no tape recordings, and give us some gleam of what we may expect. I would even go so far as to say to the President of the C.P.R., in hopes that an amendment may be made to the motion, that he would not have to go quite as far as Mr. Olson suggested. But give us a gleam, give us some inkling, give us a ray of hope that we can understand fully—or better understand—the ramifications of this bill. My purpose in speaking is, first, to urge that this motion be held over, and second that you, Mr. Chairman and the Minister, and your party too—

The CHAIRMAN: I am a neutral.

Mr. HORNER (*Acadia*): The Minister's party is what I meant, consider; we had one individual speak to another committee here giving all facts and figures. We have had facts and figures presented in the transport committee before. It was a better fight, and it was C.N.R. figures if I remember rightly, but let us be agreeable; let us be cooperative. Let us say you will have them disclose some figures, part of what Mr. Olson wants. I do not think that Mr. Olson would hold out for all that he wanted.

Mr. OLSON: Oh, yes—

Mr. HORNER (*Acadia*): And you tell the Committee part of that in an in camera meeting with no tape recording, and nobody, of course, would believe you if you would talk in an in camera meeting anyway. You do not really have to worry. I say to the C.P.R., you do not really have to worry about this information leaking out, because everybody would immediately say, "well, you are not a transportation expert anyway." But I am really serious about this. I want to know a little more about your costing. We had some tables presented here which, as I said at the time, a 7-year old could go through and follow them, and they gave us nothing. They were hypothetical cases, Mr. Sinclair. The demonstration said, well, we could add this to that but that would not give us the right answer. And that would not be profit, and that is about as far as it went. There was even, as I noticed them go by, a mathematical error in the slides. The Chairman would not let us look at the slides very long or ask questions on them. So I am urging the witnesses to take into consideration the interest and earnest desire of this Committee and the premiers of the three prairie provinces, and I am urging you, Mr. Minister, to consider the feasibility of having an in camera meeting with no recording of the proceedings.

The CHAIRMAN: Well, Mr. Horner, three things: number one, about time for asking questions, no one had had more time to ask questions than I have allotted you; number two, the Chair really is in no control of setting this motion over. I am in the hands of the Committee. The Minister is not here in an official capacity, but as an observer. At the same time he has no control over what happens to this motion here. It is completely in the hands of this Committee.

Now, before we have to leave again, I would ask the mover whether he wants the motion to be put to a vote, or whether it should be withdrawn for the time being, or held over—

Mr. OLSON: No, Mr. Chairman, out of respect for what a number of members have said I would agree. I do not think it is proper for me to table my own motion, but if some other member would table it to some definite day, let us say a week at the most, or perhaps next Tuesday, some day definite, then I would agree to that.

The CHAIRMAN: I am in the hands of the Committee. If someone would move whether we vote on it or do not vote on it, or table it. We cannot have another motion. I have to get rid of the first motion before another motion is moved.

Mr. OLSON: No, Mr. Chairman, I beg to differ with you. Any time a motion is before this Committee it is quite in order to move that it be tabled to another day.

The CHAIRMAN: Will you just hold on until we get the official ruling as to what had to be done here? I am advised by the Clerk that the motion either has to be withdrawn and introduced at a later date, or it has to be put forward and voted on.

Mr. OLSON: I do not agree with that ruling, but if that is the case I will withdraw the motion until Tuesday afternoon.

Mr. HOWE (*Wellington-Huron*): Mr. Chairman, I think you have a perfect right to reserve a decision on the legality of this motion.

The CHAIRMAN: I am informed by the Clerk that that is not so.

Mr. HOWE (*Wellington-Huron*): I did that on several occasions—

The CHAIRMAN: We will get an opinion on it by the time we come back after the vote. How will that be?

Mr. OLSON: Mr. Chairman, surely you are not suggesting that this Committee must sit until a motion is disposed of and that there is no provision in our rules to table a motion in Committee until some other time? I just cannot understand that.

The CHAIRMAN: I am informed by the Clerk that the mover either withdraws it and presents it at a later date, or it is put to a vote.

Mr. OLSON: Well, Mr. Chairman, how would you like it if I moved that this meeting be adjourned? Then what would you do with it?

The CHAIRMAN: I would suggest that the motion be withdrawn, give notice of motion that you are going to present it Tuesday and we will hear it Tuesday morning.

Mr. OLSON: Well, Mr. Chairman, I will—

The CHAIRMAN: It will achieve the same effect.

Mr. OLSON: Under protest of this ruling I will withdraw the motion and give notice that it will be reintroduced on Tuesday afternoon, but I do not agree with that ruling.

The CHAIRMAN: Gentlemen, is it your intention to adjourn and let the CPR officials go or do we call them back?

An hon. MEMBER: It is not fair to them, Mr. Chairman. I think we should adjourn for tonight.

The CHAIRMAN: Then the CPR officials are free to leave. We will adjourn until Tuesday morning at 9.30, at which time we will hear representatives from Shell Oil.

APPENDIX A-13

HOUSE OF COMMONS STANDING COMMITTEE

ON TRANSPORT AND COMMUNICATIONS

SUBMISSION OF CANADIAN PACIFIC

RESPECTING BILL C-231

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HOUSE OF COMMONS STANDING COMMITTEE
ON TRANSPORT AND COMMUNICATIONS

Submission of Canadian Pacific
respecting Bill C-231

Introduction

Bill C-231 is the culmination of a series of events which began in 1958. In the summer of that year a Conciliation Board recommended increases in wage rates and improved vacations with pay for the non-operating employees of the railway companies. With these increases in prospect the railways applied to the Board of Transport Commissioners for authority to increase freight rates. In November, 1958, the Board authorized a 17% general increase in freight rates which was sufficient only to reimburse the railways for the additional wage expense. The decision of the Board was appealed to the Governor-in-Council by various Provinces. The appeal was dismissed and the Government at the same time indicated its intention to set up a suitable body to review the "freight rate problem" and as well its intention to provide for "an immediate alleviation of discrimination where it exists and a long-term solution to the broader problems". To implement its expressed intention the Government took action in two directions.

It announced in March, 1959, that it did not propose to permit any further general increases in railway freight rates and enacted the Freight Rates Reduction Act in July, 1959. This Act required railways to reduce class and commodity rates (other than competitive rates) to the extent necessary to reduce gross freight revenues by \$20 million a year and made provision to reimburse the railways to the extent of this reduction. Since that time class and commodity rates (other than competitive rates) have remained at the levels set by the Freight Rates Reduction Act.

Secondly, it appointed a Royal Commission in May, 1959, "to inquire into and report upon the problems relating to railway transportation in Canada and the causes thereof, and to recommend solutions thereto".

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This Commission, referred to as the MacPherson Royal Commission on Transportation, conducted one of the most thorough investigations of transportation problems ever made in Canada. It held public hearings in 14 cities, including the capitals of the ten Provinces. Some 141 submissions were heard and 185 exhibits were filed during these hearings which occupied 134 sitting days over a period of seventeen months.

The basic findings of the MacPherson Commission are contained in the following paragraphs:

"Since the end of World War II, the transportation environment in Canada has been transformed from a monopolistic one, very much dominated by the railways, into a highly competitive one in which a

number of different modes of transport are vying actively for the available traffic." Vol. I, page 26

and further:

"The competitive position of the railways has been seriously weakened, we are convinced, because of the burden which the railways continue to carry as a legacy from the monopolistic environment of the past." Vol. I, page 28

and further:

"This burden, which bears upon the plant, the rate, and the regulatory structure within which the railways operate, prevents them from adapting fully to the new competitive environment and it must be lifted if the railways are to take their proper place in a transportation system which adequately reflects the needs of our Canadian society." Vol. I, page 28

On the basis of its findings the MacPherson Commission arrived at the following conclusions:

"The regulation of transportation in Canada should be minimized as much as possible, consistent with the protection of the public interest, and such regulation as is retained should bear in a reasonably equitable fashion on all carriers.

"The rationalization of railway plant and operations should be actively encouraged by public policy and where, for national policy reasons, it is considered necessary to retain rail operations such as unprofitable passenger or branch line services, the railways should be entitled to payment from public funds to cover their deficits on such services.

"No particular form of transport should be singled out as an instrument of national policy if any burden is involved in the performance of the function *unless* sufficient compensation is provided to that mode of transport to prevent distortions in the competitive transportation market.

"Assistance to transportation which is designed to aid, on national policy

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grounds, particular shippers and particular regions should be recognized for what it is and not be disguised as a subsidy to the transportation industry. Moreover, whenever assistance of this kind is distributed through the transportation medium it should be available on a non-discriminatory basis to all carriers." Vol. I, page 29

"The solution of the problem of securing an optimum allocation of resources in each mode of transport will be achieved, not by lifting the burden of roadbed investment over which railways must perforce have exclusive jurisdiction, but by levying appropriate charges, including return on investment, on all other modes of transport for roadway, navigational or terminal facilities provided, sufficient to assure that each bears its appropriate costs of operation." Vol. II, page 36

The conclusions of the MacPherson Commission were summed up as follows:

"In brief, the broad aim of public transportation policy should be to ensure—consistent with the other goals of national policy—that all the various modes of transport are given a fair chance to find their proper place within a competitive system. The application of such a policy is, we

believe, essential if we are to obtain—at a minimum cost—a balanced and efficient transportation system which is fully adequate to meet the nation's transportation requirements." Vol. I, page 30

These conclusions have been generally accepted and they have provided the framework for the development of a national transportation policy.

National Transportation Policy

Clause 1 of Bill C-231 defines the national transportation policy for Canada and spells out the objectives of that policy.

The national transportation policy, as defined in the Bill, is that:

"An economic and efficient transportation system making the best use of all available modes of transportation at the lowest total cost is essential to the economic well-being and growth of Canada."

The *objectives* of this policy are:

- an economic and efficient transportation system under which all modes of transport are able to compete
- achievement of the lowest total transportation cost to the country

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Clause 1 sets out the *conditions* for the achievement of these objectives:

"...except in areas where any mode of transport exercises a monopoly,

- (a) regulation of all modes of transport with due regard to the national interest will not be of such a nature as to restrict the ability of any mode of transport to compete freely with any other modes of transport;
- (b) each mode of transport, so far as practicable, bears a fair proportion of the real costs of the resources, facilities and services provided that mode of transport at public expense; and
- (c) each mode of transport, so far as practicable, receives compensation for the resources, facilities and services that it is required to provide as an imposed public duty;.....".

It does not appear that the exception where a mode of transport exercises a monopoly is intended to apply to the three subsections and a suitable revision in the drafting of this clause is required.

In our view the national transportation policy as defined in the Bill is sound and in accordance with the conclusions reached by the MacPherson Commission after its exhaustive study. We consider that if this policy is faithfully carried into legislation and correctly interpreted in the administration of the legislation, Canada will achieve the objectives it seeks—an economic and efficient transportation system at the lowest total transportation cost. We wish to emphasize, however, that the objectives of national transportation policy cannot be achieved unless the conditions set out in this clause are met.

These conditions are designed to remove from each mode of transport any undue burden imposed by public policy; to ensure that no mode of transport will be provided with facilities at public expense to the detriment of other modes; and to enable each mode of transport to compete freely with the other modes. This is the only way that each mode may reflect the economics of its

particular operations and thus ensure the lowest total transportation cost to the country.

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The objectives of national transportation policy cannot be achieved unless the railways have economic and efficient plants and provide the facilities needed to meet new and changing requirements of the nation's economy. This requires that millions of dollars be spent each year. For instance, railway capital expenditures of Canadian Pacific in 1965 were \$103 million and this year we are planning to spend in excess of \$110 million.

As expenditures of this size must be made year after year, it is necessary that railways have adequate earnings. For some seven and a half years, class and commodity rates (other than competitive rates) have been frozen at reduced levels and, pending a determination as to what action the railways may take with regard to the burdens which the MacPherson Commission found were imposed on them, the railways received some compensation by way of Government payments.

While there have been valid reasons for this period of suspension and study, the situation which has prevailed pending enactment of the Bill is not healthy for the railways, nor good for the relations between railways and their employees, nor for shippers, nor for the people of Canada.

Subsidies create artificial relationships in the economy, and false assumptions for the processes of collective bargaining.

We do not seek to perpetuate our railway on the basis of subsidy. We are confident that, given a fair regulatory climate, we can, over a period of time, operate a viable, economic and efficient railway without subsidy.

What we seek is a climate where there is equal opportunity. If regulation is required, it must be uniform; if resources are provided at public expense, their

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costs should be borne by those who benefit; if a public duty is imposed requiring the provision of a company's facilities and services, compensation should be provided.

It is not suggested that a certain level of rail earnings be guaranteed to the railways, but only that the regulatory climate be such as not to restrict them from exercising their particular advantages of low cost operation in competing for traffic. Nor should regulation take the form of restrictions on the opportunity to adjust plant and operations to the necessities of changed conditions.

It is unrealistic to suggest that the change from the present position to that envisaged in the Bill can be made in one step. A period of adjustment is required.

It is for this reason that the Bill provides for a transitional period during which provision is made for payments on a declining basis and for the processing of the facts relating to uneconomic branch lines, passenger train services and the movement of grain and grain products at Crow's Nest Pass and related rates. These payments are required, in view of the public policies of the past, to achieve a fully independent economic and efficient railway system. At the end of the transitional period the only payments that would then be required

would be payments in compensation for the continued burden of imposed public duties.

The national transportation policy has twin objectives to be achieved through the three conditions set out in clause 1 of the Bill. It is essential that implementation of these conditions be found in the legislation.

Canadian Transport Commission

To accomplish the objectives of national transportation policy, Bill C-231 provides for the establishment of a Canadian Transport Commission which will have jurisdiction over "carriers engaged in transport by railways, water, aircraft, extra-provincial motor vehicle transport and commodity pipelines".

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Broadly speaking, the Commission will assume the regulatory functions of the existing boards together with regulatory functions over extra-provincial motor vehicle transport and commodity pipelines, "with the object of coordinating and harmonizing the operations of all carriers" under its jurisdiction. To this regulatory function will be added a study and research function for the purpose of advising the Minister of Transport as to the measures necessary to achieve the objectives of national transportation policy.

The MacPherson Commission did not contemplate a commission having jurisdiction over all modes of transport. It recommended the creation of a National Transportation Advisory Council to undertake the task of conducting the studies necessary to achieve the goals of national transportation policy.

There is a need in Canada for a body to make continuing studies and conduct research into matters relating to all forms of transportation. With developments in transportation thus under constant study and review, it is our hope that this country can have an economic and efficient transportation system without resort to periodic Royal Commissions. It is important that care be taken that the study and research function of the Commission does not become confused with its regulatory function, nor that it results in the Commission assuming some of the functions of management.

Under section 16 the Commission is authorized to study inter alia:

- "measures to assist in a sound economic development of the various modes of transport",
- "economic aspects of all modes of transport in Canada",
- "the relationship between the various modes of transport in Canada and the measures that should be adopted in order to achieve coordination and development, regulation and control of the various modes of transport".

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Inherent in these powers and duties is the danger that the Commission may find as a result of such studies that one mode is not developing because another mode, through asserting its inherent advantages of low costs, is able to quote compensatory rates that are below the costs of the first mode, and the Commission may conclude that this is unfair competition. Such a conclusion would be contrary to the national transportation policy as set out in clause 1 of the Bill. It would be detrimental to the best interests of shippers, and in fact, to the economy of the country.

Measures proposed for the development, regulation and control of the various modes of transport should not be such as to inhibit or destroy the managerial functions essential in the provision of economic and efficient transportation.

Insofar as the regulatory aspect is concerned, the Act must be administered in a manner which will permit each mode to reflect its peculiar and particular capabilities in the achievement of the lowest total transportation cost.

Railway Freight Rates

Freight rates are important to shippers and all the people of Canada, not just the railways. It is, therefore, essential to ensure that the implementation provisions of the Bill follow closely the objectives of national transportation policy and the conditions set out in clause 1 for the achievement of these objectives.

Of the three conditions set out in clause 1, the first has the greatest impact upon freight rates. This condition is:

“...except in areas where any mode of transport exercises a monopoly,

- (a) regulation of all modes of transport with due regard to the national interest will not be of such a nature as to restrict the ability of any mode of transport to compete freely with any other modes of transport.”

The MacPherson Commission's conclusions on the question of freight rate regulation are summed up in the following extracts:

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“Within the controls for minimum rate regulation which have been spelled out in Chapter 3 and maximum rate controls as set out in this chapter, the railways will be free to set individual rates by ordinary business standards and to adjust them upwards and downwards as the competitive conditions and changes in cost patterns require.” Vol. II, pages 106-7.

“Railways, in common with other carriers, particularly trucks, will be free to make independent assessment of all their rates, and adjust them as business acumen directs, subject only to the maximum controls over significant monopoly and the minimum controls of directly associated costs of the movement.” Vol. II, page 113.

“Embracing the limited controls on monopoly power specified throughout this Report, public policy must recognize that railway rates and services cannot now be determined and cannot now be controlled by considerations other than those set by commercial and competitive necessity. To legislate rates and rate-making conditions freely into existence is to betray an attitude which is anachronistic under modern competitive conditions. It simply is not possible to ignore commercial principles in legislation and expect those same commercial principles to provide adequate rail revenues.” Vol. II, page 277.

There appears to be considerable interest in regard to what has been described as the new freedom of ratemaking which is allowed the railways under Bill C-231. Essentially, the Bill contains three basic provisions:

- a floor established with reference to variable costs below which rates may not go;
- maximum freight rates for shippers in areas where the railway may exercise a monopoly; and
- subject to the floor and ceiling provisions, elimination of the present regulation with respect to establishing and publishing rates.

These provisions with some exceptions accomplish in substantial measure the objectives of national transportation policy and meet the principal condition necessary to achieve that policy.

Section 334 provides that all freight rates shall be compensatory. A freight rate is compensatory when it exceeds the variable cost of the movement of the traffic as determined by the Commission. The Commission is empowered to disallow a freight rate that it determines is not compensatory either on its own initiative or on complaint. This provision for a compensatory rate is needed for

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the protection of carriers of all modes. It prevents pricing at less than variable cost.

Section 336 providing for maximum rates covers the situation where the railway may exercise a monopoly.

The MacPherson Commission was concerned with the shipper who had "no practical alternative" to rail transport, the shipper who was vulnerable "because of a lack of alternative carriers". In such a case, the MacPherson Commission said that there should be provided "regulation of a type and extent which attempts to do for the industry what universally pervasive competition would do" (Vol. II, page 13) and that "The power of the state must, in transportation as in other monopoly areas, attempt to substitute for competition." (Vol. II, page 96). Its recommendation was that the maximum rate be set at the total of variable cost plus an amount equal to 150% of variable cost for a carload of traffic weighing 30,000 lbs. on condition that the shipper ship all of his goods by railway.

Section 336 defines the captive shipper as one for whose goods "there is no alternative, effective and competitive service by a common carrier other than a rail carrier". The shipper may apply to the Commission first for the determination of the probable range within which his fixed rate would fall and subsequently may apply to the Commission to fix the rate. The fixed rate is an amount equal to the total of the variable cost of the carriage of the goods plus an amount equal to 150% of the variable cost. The Commission is to calculate variable cost on the basis of carloads of 30,000 lbs. in the standard railway equipment for such goods. Where there are alternative routes by two or more railways, the Commission is directed to calculate variable cost using the lowest cost rail route.

The shipper may then enter into a written undertaking with the railway to ship all his goods by rail at the fixed rate.

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Thus far the provisions of this section are substantially in agreement with the recommendations of the MacPherson Commission. However, they differ in the requirement of subsection (5) of section 336 that the fixed rate must be

reduced by an amount equal to one-half the reduction in the variable cost for shipments in excess of 30,000 lbs.

The MacPherson Commission recommended that any reduction in the rate for carloads in excess of 30,000 lbs. be left for negotiation under ordinary business methods between the shipper and the railway. While the Bill provides for negotiation, it also gives the shipper the statutory advantage of a reduction in the rate equal to 50% of the difference in cost.

It must be kept in mind that the key carload weight of 30,000 lbs. was carefully selected by the MacPherson Commission to simulate truck competition. It is therefore our view that once the rate has been fixed under conditions comparable with those which would exist if there was effective competition, the captive shipper would be in a position equal to that of the shipper in a competitive area. For this reason we believe that the statutory provision for a reduction in the fixed rate is not required and that the captive shipper has sufficient protection if reductions in all cases are negotiated. Heavier loadings are recognized by the railways as incentives for reducing rates and we suggest, therefore, there is no need for such a statutory requirement.

Subject to the provisions for minimum rates and for maximum rates in the case of the captive shipper, the MacPherson Commission recommended that the railways be free to fix and alter rates just as any other commercial concern, including trucks.

The MacPherson Commission emphasized that the type of regulation which it proposed was in substitution for the existing regulation:

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"Such maximum rate control, it should be emphasized, is recommended solely as a replacement to existing rate regulation, not as an extension of it. The old controls and the new will not mix.

"This latter point is so important that we feel we cannot stress it too strongly for there is the very real danger that either through misunderstanding or inadvertence the recommendations for maximum rate control which follow will be only partially implemented or superimposed on top of existing regulation. Nothing could in our view be more harmful nor less in keeping with our findings and recommendations. The time is long overdue when the trend of legislation should begin to reflect the facts of the increasing competition which railways face, and it is our intent that the effect of our recommendations should be to change the nature and reduce the extent of rate regulation over railways while retaining the necessary minimal controls required. It would be a serious misconstruction of our recommendation respecting regulatory rate control to attempt to implement our proposal for maximum rate control within the present system. Specifically, the proposal for maximum rate control set out in this chapter is designed to replace the present unsatisfactory maximum rates and we state, with great emphasis, that a partial implementation will not succeed." Vol. II, page 85.

Bill C-231 eliminates many regulatory features found in the Railway Act and which are applicable only to a total monopoly environment. These outdated provisions include regulations respecting unjust discrimination and undue

preference, equalization, certain rules respecting changes in tariffs and the right of the Board to prescribe rates in all cases and to classify commodities.

The railways are now operating in a highly competitive environment. The elimination of these provisions is necessary to permit them to compete freely with other modes of transport which is the first condition set out in clause 1 for the achievement of the national transportation policy.

Section 335 of the Bill provides, in effect, that class and non-competitive commodity rates (other than competitive rates) on traffic moving into and out of the "select territory", as defined in the Maritime Freight Rates Act, or within that area are to remain at the reduced levels established under the Freight Rates Reduction Act for a period of two years of the Bill is enacted. This is to permit the study of Maritime transportation problems now being made for the

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Department of Transport to be completed. As this section is a limitation on the ability of the railways to adjust these rates, it is essential that the period not be extended.

The decision has been made not to alter the Crow's Nest Pass and related rates. This is spelled out in section 328. The MacPherson Commission did not recommend that these rates be altered but did recommend:

"that losses associated with the obligation to carry grain and grain products to export positions at a rate set by statute, which must of necessity now be recovered from other shippers, should in future be borne by the Parliament of Canada, who in its wisdom sets the statutory rate". Vol. 1, page 49.

The third condition necessary to achieve the objectives of national transportation policy as set out in subsection (c) of clause 1 of the Bill specifically provides that:

"each mode of transport, so far as practicable, receives compensation for the resources, facilities and services that it is required to provide as an imposed public duty;"

However section 329, which deals with grain and grain products moving at Crow's Nest Pass and related rates, does not provide for immediate compensation to the railways for the imposed public duty of carrying this traffic at the statutory rates. The section simply provides for a study of the revenues and costs to be made by the Commission not later than three years after the coming into force of this section and for a report of the results of this study to be made to the Governor-in-Council, specifying the amount of payments necessary in the opinion of the Commission to assist the railways to meet the costs of moving grain after December 31, 1969, at the statutory rates.

After a thorough study of the cost of moving grain and grain products to export positions, the MacPherson Commission determined that there was a shortfall of revenue on variable cost. It recommended that the railways be reimbursed for this shortfall and also be paid a fixed amount in respect of constant cost.

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It has been suggested that the reduction made by the MacPherson Commission in the shortfall of revenue on variable costs for export grain from \$17 million to \$2 million was attributable to the costing methods used by Canadian Pacific.

The reduction made by the Commission was not due to the costing methods used by the Company. The major reduction was due to the adoption of a different concept by the Commission regarding branch lines solely related to the movement of grain and to the use of a different rate for cost of money.

Both railways had included in the variable cost of moving export grain the cost of solely related branch lines. The MacPherson Commission disassociated these branch line costs from grain entirely and therefore reduced the cost of moving grain by the amounts applicable to the solely related branch lines, and dealt with branch lines in another way. The MacPherson Commission refers to this matter as follows:

"In the first place, the railways included in variable cost maintenance costs attributable to the maintenance of miles of track said to be 'solely related' to grain. We were impressed, during our hearings, with evidence which indicated that many of these lines are in fact carrying very light traffic. We have said above that we consider the existence of light density lines of importance in the group of problems facing Canadian shippers and railways. Recommendations to meet this problem have been made. In our present considerations we have, therefore, removed this expense from the costs applicable to the carriage of export grain." Vol. 1, page 63.

The recommendations referred to above in respect of light density lines are as follows:

"We, therefore, recommend that, under the administration of the Board of Transport Commissioners for Canada, an annual grant of \$13 million be made available to provide compensation for losses actually incurred in the operation of lines which the railways are prepared to abandon, but which shall be continued for a period of time to be determined by the Board." Vol. 1, page 62.

The MacPherson Commission wished to keep the payments in respect of branch lines entirely separate from payments recommended in respect of the movement of export grain.

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Both railways included in the cost of grain traffic an item termed "cost of money" which was developed on the basis of the cost of debt and equity capital supported in evidence presented before the Commission. The Commission concluded that the cost of money for grain should not be different from that which the railways could earn on rail investment generally under the permissive level of earnings allowed by the Board of Transport Commissioners. Accordingly it reduced the variable cost of grain by an amount equal to the difference between cost of money based on the rate of 6.5% as used by the railways and the rate of 3.74% as indicated at that time by the permissive level of earnings allowed by the Board.

These adjustments for branch lines and for cost of money accounted for over \$13 million of the reduction.

Costing techniques were then sufficiently developed to enable the MacPherson Commission to arrive at a conclusion on the cost of moving grain. Refinements have since been introduced in these techniques. We believe that the proposed Commission will be in a position to determine accurately the cost of moving grain at Crow's Nest Pass and related rates.

It is important that subsection (3) of section 329 provide further direction to the Commission in determining the amount of payments which, in its opinion, are necessary to assist the railways in carrying out the imposed public duty of moving grain and grain products at Crow's Nest Pass and related rates.

The MacPherson Commission said:

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"Therefore, the remuneration which should accrue to the railways is in our opinion based on two considerations. First, this remuneration should ensure that there is no burden on other users of railway facilities. Secondly, since this is a business in which the railways should be encouraged to continue, the traffic should yield a reasonable return upon investment." Vol. I, page 50

This traffic represents the largest single segment of the work performed by the railways. In the twelve months ending June 30, 1966, revenue ton miles of grain and grain products moving at statutory rates represented over 38% of total revenue ton miles for Canadian Pacific in Western Canada.

Consequently the payments must provide not only for the shortfall of revenue on variable cost but also an amount in respect of constant cost that is proportionate to the work performed in moving this traffic. Failure to do this would leave the full burden of constant cost on other traffic. Therefore, a specific direction to the Commission should be added to subsection (3) of section 329.

Section 329A fixes the rates on grain moving by rail for export to Atlantic and Eastern ports from inland points at the level of rates in effect on November 30, 1960. This section also provides for the payment to the railways, upon enactment of the Bill, of the difference between the rates now being paid by shippers and rates consistent with section 334 as determined by the Commission.

Section 334 provides that freight rates be compensatory and a rate is deemed to be compensatory when it exceeds the variable cost of the movement of the traffic. As it cannot be the intention that railways be paid merely the difference between the variable cost of moving the traffic and the present rates, a direction to the Commission similar to that proposed above in regard to Crow's Nest Pass grain should be included in subsection (3) of section 329A.

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Appeals and Appearances

Under the present Railway Act the Board of Transport Commissioners possesses wide and sweeping powers of investigation and review in respect of activities of carriers governed by the legislation. These powers are contained in the group of sections beginning with section 33 and ending with section 52.

Broadly speaking they enable the Board to investigate, hear and determine, either on its own motion or on complaint of an interested party, any matter, act or thing placed within the ambit of the Board's jurisdiction by the provisions of the Act (Railway Act sections 33 and 36). The Board may state a case to the Supreme Court of Canada where in its opinion a question of law is involved (section 44), it may make orders granting applications in whole or in part, or grant relief in addition to or in substitution for that applied for (section 47), make interim orders *ex parte* (section 48) and may review, rescind, change, alter or vary any order or decisions previously made by it (section 52).

By section 5 of Bill C-231 these broad powers of the Board are transferred to the proposed Canadian Transport Commission and made applicable in respect of proceedings before the Commission under the National Transportation Act.

Section 334 requires that freight rates be compensatory. It follows that the maintenance of a non-compensatory rate is a breach of the statute. The Commission is fully empowered under sections 33 and 36 of the Railway Act to remedy breaches of the statute either on complaint or on its own motion. Accordingly, the provisions for investigation set forth in subsection (5) of section 334 are in effect redundant and could introduce confusion in the interpretation of the Act as a whole. We therefore suggest that this subsection be deleted.

Section 317 gives the Commission power to investigate and remedy, at the instigation of *any person*, any act or omission of a railway company alleged to "prejudicially affect the public interest in respect of tolls or conditions of carriage of traffic". We do not object to the concept of investigation in the public interest. We fail, however, to understand why anyone, other than a *person interested*, should have the right to instigate such an investigation.

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The same may be said for proposed section 338A which provides for investigation on complaint of *any person* that passenger tolls and tariffs are prejudicial to the public interest. We propose that the right of complaint in sections 317 and 338A be limited to a person interested. We also propose that the words "or service" be added following the words "type of traffic" at the end of subsection (2) (a) of section 317. In many cases the type of service is as important as the other factors mentioned in this subsection.

Section 17 (1) of Bill C-231 provides for the carrying out of the work of the Commission by committees, each charged with responsibility for one mode of transport. It is to be anticipated that all orders and decisions of the Commission in railway matters, for example, will be made initially by the railway transport committee. Section 17 (4) provides for appeal to the Commission at large from any committee at the instigation of a person interested, or at the instigation of the operator of another mode of transport on grounds of discrimination or unfairness. In either event, subsection (5) provides that the order appealed from is stayed until the appeal is heard.

Many problems are inherent in the provision of subsection (5) of section 17 for the stay of an order of a committee pending an appeal. For example, where a finding of the railway transport committee as to the compensatory nature of a freight rate is appealed, what validity has the filed tariff in the interim? If the

committee has made a ruling in a matter of this kind adverse to the railway, is the railway entitled to charge the rate assailed until such time as the Commission acts on its appeal? Surely such result was not intended. Appeal in respect of each and every order fixing a maximum rate or respecting the compensatory nature of a rate is a real possibility. Certainly the scope for vexatious and frivolous appeals, or appeals made with no other object in mind but delay, would appear quite extensive. The subsection does not even provide that leave for appeal be secured.

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Furthermore, we do not think that the "operator of another mode of transport" should have rights in appeal under section 17 (4) unless his mode of transport is subject to the jurisdiction of the Commission. For example, the operator of a motor vehicle undertaking should have the benefit of this provision only after his undertaking has been exempted from the provisions of the Motor Vehicle Transport Act under section 30 of the Bill and thus brought under the National Transportation Act. It would seem incongruous to provide rights in this respect without requiring also the obligations imposed by regulation under the National Transportation Act.

In any event, we question the need of providing an appeal from a committee to the Commission. Where an appeal is directed to what is in effect the same body, or a body whose membership consists in part of persons whose judgment is being assailed, such appeal amounts to nothing more than a rehearing. The commission has power under section 52 of the Railway Act to review, rescind, change, alter or vary any of its orders or decisions and this power is exercisable in respect of its functions under the National Transportation Act (Bill C-231, section 5 (2)). We suggest that this power is sufficient.

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Branch Lines

The MacPherson Commission dealt extensively with the subject of branch lines. It concluded that the operation of uneconomic branch lines imposed a burden upon the railways and added that the railways found themselves in the position of having to continue the operation of these lines because of considerable resistance to abandonment from the public. The MacPherson Commission said that a programme of rail line abandonment abruptly implemented will cause dislocations which would not be in the interests of the community as a whole. It concluded that the continued operation of uneconomic branch lines should be supported by the nation over a period of time sufficient to enable adjustments to be made in railway investment and outside investment related to rail service.

The solution which it proposed was that the uneconomic branch lines be abandoned over a period of 15 years under the direction of the Board of Transport Commissioners and that pending abandonment, the losses on these lines be paid out of a Branch Line Rationalization Fund totalling \$13 million annually.

The Commission said that where, for national policy reasons, it is considered necessary to retain such operations as uneconomic branch lines, the railways should be entitled to payment from public funds to cover their deficits.

The elimination of uneconomic branch lines is undoubtedly within the objectives of national transportation policy as set out in clause 1 of the Bill which contains provisions to accomplish these results.

Under section 314B (1) the Commission is empowered to designate areas within which branch lines may be abandoned and the time within which applications for abandonment may be filed. Provision is made in section 314B for application for abandonment and proof of loss. Under section 314C, the Commission must determine if there is a loss and, if so, whether the line is likely to continue to be uneconomic or the Commission may determine that there is no loss and dismiss the application. Under section 314C (4) the Commission, if satisfied, may order the abandonment on any date not earlier than 30 days nor more than five years from the date of the order, or may direct the line be continued in operation, in which event the application must be reviewed at intervals not exceeding five years. (Section 314C (5))

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Provision is made in section 314E for payment to the railway of the loss arising from the operation of the uneconomic branch line for the period beginning 90 days after the application is filed until the date of abandonment or the date the abandonment order is rescinded should the line become economic.

Under section 314G the Governor-in-Council may designate areas and prescribe periods within and during which branch lines cannot be abandoned, notwithstanding the provisions just described. This section provides that the railway, if unable to make an application under section 314B (1), is entitled to payment of the loss attributable to the operation of any branch line within the area and during the period specified by the Governor-in-Council.

Finally, section 314H provides that sections 314A to 314G are to come into force on proclamation. After they come into force, no approval for abandonment of any branch line may be given under section 168 except in accordance with regulations to be made by the Governor-in-Council.

It appears that the result of these sections is to segregate branch lines into three groups:

- those which are “guaranteed” by the Governor-in-Council for a specified period
- those for which application for abandonment may be made under section 168 if the Governor-in-Council so regulates
- those which are to be considered by the Commission on an area basis with a view to abandonment after proclamation of sections 314A to 314G

The Government has published a map showing the railway lines in the Prairie Provinces “guaranteed” to January 1, 1975. This map also shows the branch lines which are not included in the guaranteed network and for which applications may be made for abandonment under section 168 of the Railway Act.

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Section 314C (2) (G) entitles the Commission to require a railway to provide traffic statistics on any line within a designated area but for which no

application for abandonment has been filed, and provides that this information shall be treated as confidential. However, under section 314D (5) this information may be published in support of any recommendation made by the Commission under section 314D (1) or (4). Subsection (1) of section 314D relates to recommendations to railway companies in which case the disclosure of the traffic information to the railways concerned may be necessary in order that they may reach a decision on the recommendation. However, subsection (4) of section 314D relates to recommendations to "the appropriate parties or to interested persons" and in this case the disclosure of the confidential information is completely unjustified. It is recommended therefore that the reference to subsection (4) in section 314D (5) be deleted.

Passenger Train Service

In dealing with uneconomic passenger train service, the MacPherson Commission said:

"The evidence we have gathered and the criteria we have developed for testing it indicate that the burden of passenger traffic deficits is the most onerous of all those which have been left on the railway because of the legacy of traditional, social and national obligations". Vol. I, page 46

and further:

"It will, therefore, be our redommendation that the Government of Canada should, in the interests of the nation as a whole, absorb in declining measure for a period of five years, this most substantial of all obligations now incumbent upon railway management". Vol. I, page 47

and further:

"To facilitate the reduction of the passenger deficits, we recommend that the pertinent statutes be amended to enable the railways, upon application to the Board of Transport Commissioners, to remove any uneconomic passenger service except when the Board is satisfied that no reasonable alternative public highway exist". Vol. I, page 60

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With respect to service where no reasonable alternate public highway exists, the Commission said:

"To the extent that there remain after this five year period rail passenger services operating at a loss but *essential because of a lack of alternate surface transportation* it shall be the responsibility of the nation to bear the burden of that loss". Vol. I, page 47

Section 314I and section 314J provide for a railway to apply to the Commission for discontinuance of a Passenger Train Service. The Commission shall first determine whether or not the service is operated at a loss. If there is no loss, the application is dismissed. If the Commission finds there is a loss, it shall then determine whether the service should be discontinued immediately or after a period. If the Commission determines that the service should be discontinued it shall fix a discontinuance date not earlier than 30 days nor later than two years from the date of the order.

If the Commission decides that the service should not be discontinued, it shall so order and reconsider the application at intervals not exceeding five years.

Section 314J provides for payments to the railway of an amount not exceeding 80 per cent of the loss of the service for the period it is required to be continued in operation.

The MacPherson Commission recommended that where a rail passenger service operating at a loss was essential, the burden of that loss should be borne by the Government. Similarly, clause 1 (c) of Bill C-231 requires that each mode of transport receive compensation for the resources, facilities and services it is required to provide as an imposed public duty.

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We consider that the payment of only 80 per cent of a loss incurred as an imposed public duty, leaving 20 per cent as a burden on the railway, is unjust and inconsistent with the third condition set out in clause 1 of the Bill as necessary to achieve the objectives of national transportation policy. It has been suggested that leaving 20 per cent of the burden on the railway would be an incentive to them to operate more efficiently. This suggestion overlooks the fact that any improvement in efficiency realized by the railway would serve mainly to reduce the amount of the Government payment while still leaving a burden on the railway from a losing service which it wishes to discontinue but which it is required to provide as an imposed public duty.

In respect of commuter services, the MacPherson Commission stated:

"It should be understood that the passenger services dealt with in this Report do not include commutation services." Vol. I, page 60

It is apparent that the MacPherson Commission considered this portion of the passenger service, which is purely local in nature, is not one involving the national interest and therefore not eligible for Government payment.

Under section 314I of Bill C-231 commuter services are excluded. Therefore, under that section the railways cannot apply for discontinuance nor file a claim for losses in respect of such services.

As commuter services are placed in this special position, it is essential that the Bill provide that commuter rates be compensatory. To do otherwise is to impose a burden on the railways without provision for compensation.

Costing

Cost determination will become of greater importance with the enactment of Bill C-231.

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Variable costs will have to be determined to establish whether a rate is compensatory or not under section 334 and to fix the maximum rate for captive shippers under section 336. Cost will also have to be determined to establish the loss attributable to uneconomic branch lines and passenger train services

under sections 314E and 314I and to develop the amounts of assistance in respect of grain moving at statutory rates under section 329.

These costing requirements are in conformity with the conclusions and the recommendations of the MacPherson Commission. The Commission found that the progress made in the science and art of costing was such as to permit the use of costs with confidence. In this regard, it said:

"The railways presented studies intended to show the costs associated with the movement of grain products from Western Canada to export positions. The techniques developed are, in our opinion, significant contributions to the science and art of solving the very complex and vexatious problems of transportation costing. The techniques used to achieve the results are not unique to railway costing, although the results are of necessity couched in terms of the railway accounts. We are aware that the studies are not solely applicable to the movement of grain, but have utility also in costing other movements." Vol. I, page 54

and further

"The great strides made recently in the techniques applicable to the costing of rail movements give confidence and precision to the rate-makers. There is no reason to expect that these techniques will not be further refined, particularly if railway accounts are set out to aid in the process." Vol. II, page 59.

Section 387B requires the new Commission to prescribe by regulation the items and factors which are relevant in the determination of costs, and at the same time it provides the Commission with certain guidelines. Guidelines are also provided in section 387A.

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We consider it desirable and to the advantage of all concerned that the Commission be assisted by a strong costing staff, comprising people having a sound knowledge of railway operations and people trained in the most modern costing techniques used by the railway and other industries. We think that the Commission needs some guidelines and we find those provided in sections 387A and 387B adequate. We agree that it should be the function of the Commission to prescribe the items and factors relevant in the determination of costs. We believe that if the Commission is assisted by a competent costing staff, its decisions will be respected and while section 387B provides for the holdings of hearings in respect of cost regulations, such hearings will be limited, thus saving the time and money of both the shippers and railways.

Reference to section 336 has been omitted from the group of sections referred to in subsection (1) of section 387A. We consider that this omission should be remedied and section 336 included in this group of sections.

Section 387C ensures that information concerning the costs of a railway company or other information that is by its nature confidential, which is obtained by the Commission in the course of any investigation under the Act, will not be published or revealed in such a manner as to be available for the use of any other person. This provision of the Bill is considered of vital importance

to the railways in view of the competitive environment in which they now operate.

Financial Provisions

The MacPherson Commission found the major obligations imposed upon the railways as a legacy of the past to be:

- the continued operation of uneconomic branch lines;
- the continued operation of uneconomic passenger train services;
- the obligation to carry grain and grain products to export positions in Western Canada at Crow's Nest Pass and related rates.

The Commission recommended that these obligations be removed and, where they cannot be removed, that the railways be adequately remunerated for the services they perform. With regard to the uneconomic branch lines and uneconomic passenger train services, in order to avoid dislocations which an immediate and abrupt withdrawal could cause, the Commission recommended compensation for specified periods of time—15 years for branch lines and 5 years for passenger train services. With regard to the movement of grain and grain products at statutory and related rates, the Commission recommended that the railways be paid annually a sum of money equal to the shortfall of revenues on variable cost plus a fixed amount as a contribution towards constant cost.

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In its conclusions to Volume I, the Commission said:

"The objective is to help the railways find their proper role in the present competitive transportation environment because we believe this to be fundamental to the solution of the problems which brought this Commission into being. The evidence is clear that the railways continue to retain a real economic advantage with respect to many essential traffic movements and—in a country of vast distances, still dependent, in large measure, for its economic welfare on the production and export of primary products—they are and will remain for the foreseeable future the backbone of the transportation system in Canada."

Vol. I, pages 73 and 74.

The MacPherson Commission released Volume I of its report in March 1961. In this report, the Commission recommended payments by the Government amounting to \$97 million for the first year to compensate the railways for the services which they are obliged to perform and which the Commission had found to be a burden upon them. Details of these payments are as follows:

	(Millions)
Passenger train service	\$62
Export grain	22
Branch lines	13
	<hr/>
Total	\$97
	<hr/>

The Commission recommended that concurrently with the implementation of its recommendations for payments to the railways for uneconomic services and services provided as a national obligation, the Government should discontinue all payments made to the railways at that time under the Freight Rates Reduction Act and the Bridge subsidy but not those made under the Maritimes Freight Rates Act, the total of payments to be discontinued amounting to \$27 million annually.

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The MacPherson Commission, after the most intensive study of transportation problems ever made in Canada, concluded that financial assistance of this order was required *at that time* to enable the railways, as commercial undertakings to assume their proper place in the increasingly competitive transportation environment.

The purpose of Bill C-231 is to define a national transportation policy, to spell out the objectives of that policy, and the conditions necessary for the achievement of these objectives. These objectives are substantially the same as those defined by the MacPherson Commission in its report.

Section 469 of the Bill provides for "normal payments" of \$110 million in 1937 reducing at the rate of \$14 million a year and terminating at the end of 1974.

The Bill also provides for payments to the railways to cover:

- the actual loss in respect of any uneconomic branch lines which the Commission determines should be continued in operation, and in respect of uneconomic branch lines guaranteed by the Governor-in-Council;
- 80% of the actual loss of any uneconomic passenger train service which the Commission determines should be continued in operation;
- the difference between the amount received for the carriage of grain at "At and East" rates and the amount which would have been received had the grain been carried at compensatory rates determined by the Commission;
- assistance after December 31, 1969, to meet the costs in respect of the carriage of grain and grain products moving at statutory and related rates to the extent that the Governor-in-Council deems it necessary or desirable.

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Under the provisions of the Bill, such payments will not be made to the railways until such time as their aggregate exceeds the level of the "normal payments" under section 469. It is not expected that this will happen until some years following enactment of the Bill.

Concurrently with the implementation of the "normal payments", Bill C-231 provides for the elimination of all the payments authorized or now made to the railways by the Government with the exception of those under the

Maritimes Freight Rates Act. These payments for the year 1966 are expected to total \$110 million. Details are as follows:

	(Millions)
Bridge subsidy	\$ 7
Freight Rates Reduction Act	20
Interim payments	50
Allowance for 1966 costs in respect of	
1964 wage settlement	30
At and East grain	3
	<hr/>
	\$110
	<hr/>

It can be seen, therefore, that there will be no improvement in payments to the railways even in the first year after enactment of the Bill.

If Bill C-231 does not provide to the railways additional financial assistance over that which they now receive and which will disappear upon enactment of this Bill, where are the railways to find the money to pay the increased costs of operation, and in particular, the increased labour cost resulting from the Maintenance of Railway Operation Act, 1966 (Bill C-230)?

The railways have increased their competitive rates and have taken steps to increase agreed charges and they are prepared to apply further increases to the extent that they can remain competitive, having regard to the attrition on traffic which can result from increase. With the exception of those relating to traffic in and out of the Maritimes and within that area, Bill C-231 permits the railways to increase class rates and commodity rates (other than competitive rates) which have remained frozen since 1959. However, notwithstanding the fact that these rates have not changed for more than seven years, it would appear undesirable from the standpoint of both the shippers and the railways to increase these rates to a level comparable to that which the economic conditions of recent years may have permitted. Increases in these rates are necessary but they will have to be applied gradually.

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Bill C-231 also provides for increases in the rates which had been reduced when the Bridge subsidy became effective, such increases to be spread over a period of three years commencing one year after enactment of the Bill.

Further, we can expect to participate in additional transportation to the extent of any general growth in the economy over the years and, within the provisions of the Act, to compete more effectively.

Apart from increases in freight revenue, it is reasonable to expect that improvements in operating performance can make a contribution towards increased costs. In the post-war period the efficiency of railway operations improved and, as a result, productivity increased. The greater efficiency was made possible through capital expenditures permitting technological improvements, the most important of which was dieselization, and more efficient use of the labour force. There is no further technological improvement on the horizon for the railway industry that will permit the increase in operating efficiency

comparable to that secured from dieselization. Nevertheless, we are hopeful that, unless artificial restraints interfere, we will achieve for some time in the future a steady but more limited improvement in operating performance than that realized since the introduction of the diesel locomotive.

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After making allowance for additional revenues from freight traffic and the reduction in operating costs resulting from increased efficiency, we anticipate a deterioration in our net earnings in the first year after enactment of the Bill. This situation can be expected to worsen in subsequent years with the annual reduction in the "normal payment" as provided in the Bill.

As the MacPherson Commission pointed out, railways are and will remain for the foreseeable future the backbone of the transportation system in Canada. Railways cannot be expected to fulfill this role and provide economic and efficient transportation as envisaged by clause 1 of the Bill if they are not financially sound.

A partial solution would be to provide for a smaller reduction in the annual "normal payments" and thus extend them over a longer period of time.

Transport by Air

Bill C-231 brings transport by air to which the Aeronautics Act applies under the jurisdiction of the new Commission.

The Aeronautics Act applies equally to all air carriers except Air Canada. On an application for a licence Air Canada does not have to establish that the service is and will be required by the present and future public convenience and necessity and its licences cannot be made the subject of the controls and conditions which can be applied in the case of licences granted to other carriers. In effect, it is the Governor-in-Council and the Minister of Transport and not the Board who control the domestic routes which can be operated by Air

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Canada and the conditions under which they are to be operated. Once Air Canada has made an agreement under section 15 or 24 of the Trans-Canada Air Lines Act with the Minister of Transport it can make an application to the Board and the Board is required to grant to Air Canada a licence under such terms and subject to such conditions as will enable Air Canada to perform the agreement.

In the light of the national transportation policy set forth in Bill C-231 and the obligation which the new Commission will have of co-ordinating and harmonizing the operations of all modes of transport, Air Canada should be subject to the Aeronautics Act and to the regulation and control of the new Commission in the same manner as other air carriers. This can be accomplished by appropriate amendments to the Aeronautics Act and the Trans-Canada Air Lines Act.

CANADIAN PACIFIC

N. R. Crump

Ian D. Sinclair

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LIST OF SECTIONS REFERRED TO IN THIS SUBSECTION AND
AMENDMENTS PROPOSED IN RESPECT THEREOF

Act	Section	Reference, Amendment or Deletion Proposed	Page
National Trans- portation Act	1	Rewording required	4
	1(a)	Reference	8
	1(c)	Reference	23
	5	Reference	17
	16	Reference	7
	17(1)	Reference	18
	17(4)	Should apply only to modes of trans- port within jurisdiction of Com- mission	19
	17(5)	Delete provisions for stay of an order of a committee	18 & 19
	17(4) (5)	Delete provisions for appeal	19
Railway Act	33	Reference	17
	36	Reference	17
	44	Reference	17
	47	Reference	17
	48	Reference	17
	52	Reference	17 & 19
	168	Reference	21 & 22
	314B	Reference	20
	314C	Reference	20
	314C(2)	Reference	22
	314D(5)	Delete reference to section 314D(4)	22
	314E	Reference	21
	314G	Reference	21
	314H	Reference	21
	314I	Reference	23 & 24
	314J	Amend to remove percentage re- striction on amounts to be paid	23 & 24

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Railway Act	317	Amend to permit application only by person interested	18
	317(2) (a)	Amend to add words "or service"	18
	328	Reference	13
	329	Reference	13
	329(3)	Amend to provide further direction to Commission	15 & 16

Act	Section	Reference, Amendment or Deletion Proposed	Page
	329A	Reference	16
	329A(3)	Amend to provide further direction to Commission	16
	334	Reference	9
	334(5)	Delete	17
	335	Reference	12
	336	Reference	10
	336(5)	Delete provision for reduction in fixed rate	11
	338A	Amend to permit application only by person interested	18
	387A	Reference	25 & 26
		Amend to include reference to sec- tion 336	26
	387B	Reference	25
	387C	Reference	26
	469	Reference	28
		Amend to provide for smaller annual reduction in "normal payments"	31
	Commuter	Amendment necessary to provide they be compensatory	24
Aeronautics Act and Trans- Canada Air- lines Act	Services	Amendments required	32

APPENDIX A-14

MEMORANDUM ON
RAILWAY FREIGHT RATESSubmitted on behalf of
CANADIAN NATIONAL AND CANADIAN PACIFIC

October, 1966

RAILWAY FREIGHT RATES

This memorandum was prepared jointly by Canadian Pacific and Canadian National to provide a general description of the Canadian freight rate structure, and may assist members of the House of Commons and Senate in their consideration of Bill C-231.

Freight rates are simply the prices charged by railways for the service they provide for handling goods. In Canada, which stretches over 3,000 miles between the oceans, geography has lent great importance to transportation, especially by rail, and for the past 100 years public and Government attention has been turned frequently to the question of freight rates and their application in the different parts of the country.

In setting prices, businessmen must recover their cost of production, including the cost of capital employed. They are limited, however, by market forces and should their prices exceed what people will pay they will be forced out of business. Conversely, pricing below cost will ultimately have the same result.

The railroad manager is no different from other businessmen. He must meet similar constraints. His prices—freight rates—must recover his costs and encourage the widest movement of goods. He is faced with a peculiar cost structure mainly because of the huge sums which must be invested in his plant. Constant costs are a much greater proportion of his total costs than in most other businesses. While his overall revenues must meet his total costs, including the cost of capital, as long as any traffic returns more than the variable costs of moving it, it will make some contribution to constant costs.

The present freight rate structure evolved over the years to meet changing conditions brought about by the growth of the country. Basically the aims are to:

- encourage distribution of goods in the broadest geographical area;
- assist shippers in meeting competition from other countries; and
- compete with other modes of transportation.

Railway freight rates are divided into:

- Class rates
- Commodity rates
 - Non-competitive
 - Competitive
- Agreed charges
- Crow's Nest Pass and related rates (statutory rates)

Class Rates

For purposes of rate-making, the thousands of commodities moved by the railway are grouped into a limited number of classes in accordance with their shipping and other characteristics. The result of this process is the Freight Classification which shows the class in which the commodity is placed. Having determined the class into which a commodity falls, it is necessary to refer to a class rate tariff to obtain the freight rate. A tariff is simply a schedule of prices.

There are nine classes commencing with Class 100, and eight lower classes are expressed as percentages of that class. A limited number of commodities take class rates at various percentages over class 100. Class rates provide a rate for every commodity between all points in Canada served by the railways.

Class rates are the maximum rates which the railways charge. Until 1955 they were at different levels in different parts of Canada. After hearings by the Board, they were adjusted to provide the same rate for the same distance in all parts of the country, except the Maritimes which were excluded at their own request.

Changes in economic and competitive conditions have led to a decreasing importance for class rates, so that in 1964 they provided only 4.7% of freight revenue for movement of traffic between points in Canada.

Commodity Rates

Commodity rates are used to meet particular situations which are not covered by class rates. They are divided into two groups, non-competitive and competitive commodity rates.

Non-competitive commodity rates

To encourage the movement of basic commodities in large volume throughout Canada, the railways have established non-competitive commodity rates. These rates are not made to meet competition of other modes of transport, but to help in developing the country. They include rates made to assist Canadian producers to meet market competition in Canada from import goods and to market Canadian goods in other countries.

These rates are made in consultation between the railways and the shippers or industries. They may be published to apply between specific points or for general application on a mileage scale.

Non-competitive commodity rates move a substantial volume of railway traffic, accounting in 1964 for 29.6% of the total freight revenue for movements within Canada.

Competitive commodity rates

Competitive rates are arrived at by negotiation between the railways and the shippers to meet carrier competition. Their level is dependent upon the degree and nature of the competition. Though lower than the class rates, competitive rates, by giving the railways extra traffic volume, make a contribution to the burden of constant cost.

These rates also move a substantial volume of railway traffic accounting in 1964 for 27.3% of the total freight revenue for movements within Canada.

Agreed Charges

Agreed Charges are contractual rates made under the authority of the Transport Act, which was enacted in 1938.

The purpose of Agreed Charges is to enable the railways to meet unregulated competition, and provide a guarantee of traffic volume, which in turn results in rate stability for the shipper over a period of time. Under the contract for an Agreed Charge, the shipper guarantees to move a specified percentage of his traffic by rail at the agreed rate.

The contract is for a minimum period of one year, and continues until terminated by either party on 90 days notice. Changes in the terms of the contract can be made at any time by agreement between the railway and the shipper to meet changed conditions.

In 1964, Agreed Charges accounted for 25.2% of total freight revenue for movements within Canada.

Crow's Nest Pass and related rates

These are rates on grain and grain products moving to export positions in Western Canada. The origin of these rates was an agreement between the Government of Canada and Canadian Pacific Railway made in 1897.

In this agreement provision was made for reduced rates on grain and flour moving from points then existing on Canadian Pacific to the Lakehead. By an amendment to the Railway Act passed in 1925, these rates were extended to grain and flour moving to the Lakehead from all points on all railways. These rates also apply to the Port of Churchill, Manitoba.

By an Order issued in 1927, the Board of Railway Commissioners directed that the rates on grain and grain products moving for export to British Columbia ports should be on the same basis as the rates to the Lakehead.

In 1964, traffic moving at Crow's Nest Pass and related rates accounted for 13.2% of total freight revenue for movements within Canada.

Maritime freight rates

Traditionally, freight rates between the Maritime Provinces and the rest of Canada have been constructed by the addition of a small arbitrary for the movement between the Maritimes and Montreal. The arbitrary did not reflect the additional distance involved, but what was regarded as the cost for the movement of goods between Maritime ports and Montreal by water.

On westbound movements, the Maritime Freight Rates Act, which was enacted in 1927, provides for a reduction in the rates on traffic from the "select territory", as defined in the Act, to other parts of Canada. The reduction is equal to 30% of the portion of the rate applicable to the movement in the "select territory". Within the "select territory" itself, the total rate is reduced by 20%.

The "select territory" is defined in the Maritime Freight Rates Act as including all four Maritime Provinces and that portion of the Province of Quebec east of Levis on the Canadian National, and Diamond, Quebec, (just east of Sherbrooke) on Canadian Pacific.

When class rates were equalized on the basis of distance in 1955, the “select territory” was excluded at the request of the Maritime Provinces. As a result, class rates within the “select territory” and between the “select territory” and the rest of Canada continued on a lower basis than in other areas of the country.

*Comparison of revenues and traffic performance
for different types of rates*

In 1949, the Board of Transport Commissioners started an analysis of railway traffic moving between points in Canada. This analysis is made each year and since 1954 is on the basis of a 1 per cent sample of railway waybills. The latest year for which the Analysis is available is 1964.

The revenue in the Analysis is adjusted upwards to include Government payments or subvention, except those under the Maritime Freight Rates Act and interim payments related to the recommendations of the MacPherson Commission. As a result of these adjustments, the revenue shown in the Waybill Analysis is higher than the shipper pays.

The 1964 Analysis includes a table which shows for each type of rate the percentage of freight revenues, the percentage of revenue ton miles, the revenue per ton mile, and the average length of haul. The volume of freight traffic is measured by revenue ton miles. The earnings are expressed in terms of revenue per ton mile. For example, if a car is loaded with 20 tons of freight moving over a distance of 100 miles, the revenue ton miles amount to 2000 (20 × 100). If the rate is 20¢ per 100 lbs., the revenue is \$80 (40,000 lbs. × 20¢ per 100 lbs.). The revenue per ton mile from this movement is 4¢ (\$80).

(2000)

For all traffic moving between points in Canada in 1964, these figures are as follows:

Type of Rate	Revenues	Revenue Ton-Miles	Average Length of Haul	Revenue Per Ton Mile
	%	%	(Miles)	(Cents)
Class	4.7	1.6	755	4.03
Commodity				
Non-competitive	29.6	27.6	460	1.50
Competitive	27.3	15.3	332	2.50
Agreed Charges	25.2	18.8	336	1.87
Statutory Grain	13.2	36.7	857	.50
Total Traffic	100.0	100.0	483	1.40

The Waybill Analysis contains information which permits the preparation of similar data for traffic originating in each region in 1964. The Maritime Region comprises the “select territory” as defined in the Maritime Freight Rates Act; the Eastern Region includes the balance of the Province of Quebec

and Ontario as far west as Port Arthur and Armstrong, Ontario; and the Western Region consists of all lines west of Port Arthur and Armstrong except those in the Yukon.

A summary of this data is shown as follows:

REVENUES

Type of Rate	Maritime Region %	Eastern Region %	Western Region %
Class	6.6	7.2	1.7
Commodity			
Non-competitive	43.0	28.1	28.8
Competitive	22.2	30.1	25.1
Agreed Charges	28.2	34.6	14.4
Statutory Grain	—	—	30.0
Total	100.0	100.0	100.0

Revenue Ton-Miles

Type of Rate	Maritime Region %	Eastern Region %	Western Region %
Class	3.0	4.0	0.3
Commodity			
Non-Competitive	51.0	35.3	20.8
Competitive	16.3	23.7	11.2
Agreed Charges	29.7	37.0	8.7
Statutory Grain	—	—	59.0
Total	100.0	100.0	100.0

Average Length of Haul

Type of Rate	Maritime Region (Miles)	Eastern Region (Miles)	Western Region (Miles)
Class	615	857	542
Commodity			
Non-competitive	313	420	604
Competitive	207	276	493
Agreed Charges	417	317	347
Statutory Grain	—	—	857
Average all traffic	315	343	660

Revenue per Ton-Mile

Type of Rate	Maritime Region (Cents)	Eastern Region (Cents)	Western Region (Cents)
Class	2.99	4.07	5.06
Commodity			
Non-competitive	1.13	1.82	1.37
Competitive	1.83	2.91	2.22
Agreed Charges	1.27	2.13	1.64
Statutory Grain	—	—	.50
Average all traffic	1.34	2.28	.99

International Traffic

The Board's Waybill Analysis does not include traffic moving between Canada and the United States, which accounts for about 25% of total railway freight revenue. The rates charged on traffic moving from Canada to the United States take into account rates on comparable traffic moving between points in the United States. Conversely, the rates from the United States to Canada are related to the rates on traffic moving between points in Canada.

As an illustration, rates on fruits and vegetables and lumber from British Columbia to the United States are the same as the rates on these products from Washington and Oregon to the same destinations in the United States. On the other hand, to maintain the principle of parity, rates on fruits and vegetables and lumber from Washington and Oregon to Eastern Canada are the same as the rates from British Columbia to Eastern Canada. This is done so that Canadian producers will enjoy equal rates with their competitors in the United States. The market for these Canadian products in consuming areas in the United States is very much larger than the market in Canada.

Another example of the importance of freight rates in international trade is the movement of newsprint paper from Canada to the United States. Newsprint is Canada's largest single source of United States funds. The rates on newsprint to the United States have been negotiated with both the producers and the U.S. railroads, and are at a level to assist Canadian paper mills to compete with other producers for the United States market.

There is also a large variety of other goods moving between Canada and the United States, and the rate structures southbound and northbound bear and agreed relationship. Over the years, the negotiations between Canadian and United States railways and shippers have produced a rate structure which promotes the marketing of Canadian products in the large consumer areas of the United States.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

STANDING COMMITTEE

ON

TRANSPORT AND COMMUNICATIONS

Chairman: Mr. JOSEPH MACALUSO

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 29

TUESDAY, OCTOBER 25, 1966

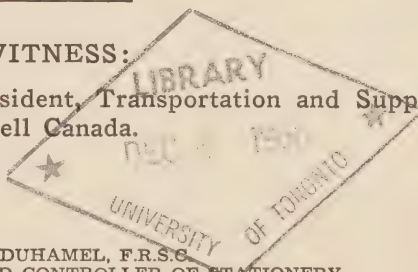
Respecting

BILL C-231

An Act to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and to enact other consequential provisions.

WITNESS:

Mr. R. P. Ritchie, Vice-President, Transportation and Supplies,
Shell Canada.



ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE
ON
TRANSPORT AND COMMUNICATIONS

Chairman: Mr. Joseph Macaluso

and

Mr. Allmand,	Mr. Horner (<i>Acadia</i>),	Mr. McWilliam,
Mr. Andras,	Mr. Howe (<i>Wellington-</i>	Mr. Nowlan,
Mr. Bell (<i>Saint</i>	<i>Huron</i>),	Mr. Olson,
<i>John-Albert</i>),	Mr. Jamieson,	Mr. Pascoe,
³ Mr. Boulanger,	Mr. Langlois	Mr. Rock,
Mr. Byrne,	(<i>Chicoutimi</i>),	Mr. Schreyer,
Mr. Cantelon,	Mr. Legault,	Mr. Sherman,
Mr. Deachman,	² Mr. H. Pit Lessard,	Mr. Southam,
Mr. Fawcett,	Mr. MacEwan,	¹ Mr. Stafford—25.

(Quorum 13)

R. V. Virr,
Clerk of the Committee.

¹ Replaced Mr. Groos on October 26, 1966.

² Replaced Mr. Éthier on October 26, 1966.

³ Replaced Mr. Morison on October 26, 1966.

ORDER OF REFERENCE

TUESDAY, October 25, 1966.

Ordered,—That the names of Messrs. Stafford, Lessard and Boulanger be substituted for those of Messrs. Groos, Éthier and Morison on the Standing Committee on Transport and Communications.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

MINUTES OF PROCEEDINGS

TUESDAY, October 25, 1966

(50)

The Standing Committee on Transport and Communications met this day at 3.35 p.m., the Chairman, Mr. Macaluso, presiding.

Members present: Messrs. Allmand, Andras, Boulanger, Byrne, Cantelon, Deachman, Fawcett, Horner, (*Acadia*), Jamieson, Howe (*Wellington-Huron*), Langlois (*Chicoutimi*), Legault, Lessard, Macaluso, MacEwan, McWilliam, Nowlan, Olson, Rock, Schreyer, Sherman, Stafford (22).

Also present: Honourable J. W. Pickersgill, Minister of Transport and Mr. Addison, M.P.

In attendance: Mr. R. P. Ritchie, Vice-President, Transportation and Supplies, Shell Canada.

The Chairman introduced Mr. Ritchie, Vice-President, Transportation and Supplies, Shell Canada.

Mr. Ritchie presented the brief on behalf of Shell Canada.

The Chairman invited the Committee Members to examine the witnesses.

The questioning of the witnesses being concluded, the Chairman thanked the witnesses for their very lucid brief.

On motion of Mr. Lessard, seconded by Mr. Rock,

Resolved,—That the letter dated October 24, 1966 from the Dominion Marine Association be printed as an appendix to this day's Minutes of Proceedings and Evidence. (See Appendix A-15).

On motion of Mr. Cantelon, seconded by Mr. Jamieson,

Resolved,—That the letter dated October 20, 1966 from the Vancouver Board of Trade be printed as an appendix to this day's Minutes of Proceedings and Evidence. (See Appendix A-16).

On motion of Mr. Cantelon, seconded by Mr. Sherman,

Resolved,—That Mr. Lessard be re-appointed Vice-Chairman of the Standing Committee on Transport and Communications.

Moved by Mr. Olson, seconded by Mr. Schreyer;

That the President of Canadian Pacific Railway be called before the Standing Committee on Transport and Communications of the House of Commons, and that he be requested to provide the following information:

- (1) The variable cost of the carriage of

- (a) a 30,000 lb. carload of Potash from Esterhazy, Saskatchewan to Vancouver, B.C.
- (b) a carload of Potash carried in the weight of carload most commonly carried from Esterhazy to Vancouver.
- (c) a 30,000 lb. carload of steel sheets from Hamilton to Edmonton.
- (d) a 100,000 lb. carload of steel sheets from Hamilton to Edmonton.
- (e) a 30,000 lb. carload of chemical fertilizer from Medicine Hat to Vancouver.
- (f) a 100,000 lb. carload of chemical fertilizer from Medicine Hat to Vancouver.
- (g) a 30,000 lb. carload of lumber from Kamloops to Winnipeg.
- (h) a 30,000 lb. carload of sulphur from Pincher Creek, Alberta to Vancouver.
- (i) a 30,000 lb. carload of dressed beef from Lethbridge to Montreal.
- (j) a carload of dressed beef carried in the weight of carload most commonly carried from Lethbridge to Montreal on the Canadian Pacific Railway.

(2) The CPR freight rate in effect on October 15, 1966 for each commodity as listed in Paragraph 1, (a) to (j).

And the debate thereon continuing; and the question being put the motion was negatived on division; yeas 8, nays 12.

At 5.30 p.m. the meeting adjourned until 10.30 a.m. Thursday, October 27, 1966.

R. V. Virr,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, October 25, 1966.

The CHAIRMAN: Order, please. We have a quorum. We have before us today the brief submitted by Shell Canada Limited, and to my right is Mr. R. P. Ritchie, Vice-President Transportation and Supplies. Also with him is Mr. J. E. Hughes, Q.C., Vice-President and General Counsel; Mr. J. J. Urie, Counsel; Mr. J. E. Mims, Manager, Pipeline Department; Mr. R. J. Leach, Solicitor for Shell Canada Limited. Mr. Ritchie, you may proceed.

Mr. R. P. RITCHIE (*Vice-President, Transportation and Supplies, Shell Canada Limited*): Thank you, Mr. Chairman. Before dealing with the brief I would like to thank you and the members of your Committee for being so kind as to listen to the brief and give us an opportunity to present our views in connection with the subject of commodity solids pipe lines. The brief is short, sir. Is it your wish that I read it?

The CHAIRMAN: Mr. Ritchie, we have had it for quite some time. I thought perhaps you might wish to comment on it. The members have had the brief in their possession for some time, and in this way we could facilitate your presentation.

Mr. RITCHIE: Just as you like. It would not take long to go through it, but if you would prefer I would be glad to comment on it.

The CHAIRMAN: I think perhaps you can read it through.

Mr. RITCHIE:

Brief, re Bill C-231, submitted by Shell Canada Limited
to the House of Commons Standing Committee on
Transportation and Communications

On the 25th day of February, 1966, a petition was submitted to both Houses of Parliament for the incorporation of a special act company, to be called Commercial Solids Pipe Line Company, with an authorized capital of \$100,000,000 to engage in the business of constructing and operating pipe lines for the transportation of solids. In the presentation made before the Senate Standing Committee on Transport and Communications, it was revealed that one project envisaged is a \$50,000,000 pipe line to convey sulphur from the producing areas in Alberta to the West Coast, and that other projects of similar magnitude are a possibility. While we anticipate that other parties would want to share in this project Shell Canada Limited is the sponsor of this Bill and is willing to provide all or the major part of the capital required. We mention these facts to demonstrate that Shell Canada Limited has a very real interest in the developing field of commodity pipe lining.

It is respectfully submitted that the development of commodity pipe lines as a major transportation means in Canada must be encouraged. The reason is

that the market for the many different kinds of minerals of which Canada has large reserves is increasing rapidly, and these solids must be transported overland in large quantities and at economic rates if Canada is to take its place among the world suppliers. For example, sulphur is produced in Alberta to-day at a rate of $1\frac{1}{2}$ million tons a year and this is expected to double by 1970, making Canada the second largest producer in the world. Most of this sulphur will have to be moved approximately 750 miles to Vancouver for shipment overseas. The demand for coal for use in the steel and energy industries is now increasing and production from Canada's 90 billion ton reserves in Alberta, Saskatchewan and British Columbia has to be moved to the industrial regions of Quebec and Ontario or to the West Coast for export to foreign markets if the industry is to prosper. I might add, gentlemen, that we hear a lot about coal, and particularly the coal problem in the Atlantic provinces, but when we talk about reserves actually in Canada, less than 5 per cent of the total coal reserves are in the Atlantic provinces. The rest are in Alberta, Saskatchewan and British Columbia. If these are really to be produced from the landlocked areas, where the reserves are, you will have to find a transportation mechanism that will move them to market at substantially lower rates than are presently available.

Potash production in Saskatchewan is similarly landlocked. Seven new potash plants are presently under construction in Saskatchewan which will quadruple production by 1970 and place Canada as the number one potash producing country of the world. The forecast production for 1970 delivered to market should be worth \$300 million and if moved by rail would require approximately 200,000 separate box car loads to transport it to market.

Gentlemen, by 1970, it is estimated that the equivalent of four and one-half train loads a day will have to move out of Saskatchewan to the coast and four and one-half trainloads of empty cars will have to move back. On an even basis, this would require a minimum of 6,000 cars, if there are no peaks. If there are peaks, it would take the best part of 9,000 cars and well over 100 locomotives to move this potash alone. This is a very fantastic job of materials handling, and our problem is that in the laid-down cost at the coast a very substantial part of it is transportation.

Canada exported over 34 million tons of iron ore in 1965. As Canada's deposits near tidewater in Newfoundland and British Columbia become exhausted the large reserves which lie further inland must be tapped to maintain the country's position as a major exporter. Just a highlight of this again. We are now in the position that last year we produced about 39 million tons of iron ore, and of this only 10 per cent was used in Canada, the rest was exported. While we are very proud of the way iron ore has grown, the facts are that our iron ore has an iron content of just over 50 per cent, whereas iron ore in Venezuela has a content in excess of 60 per cent. Also, the Venezuelan iron ore, which is substantial, is much nearer tidewater, 90 miles away, as against 350 odd miles for our present sources. As you go further afield and these are depleted there will be substantially increased transportation movements. I cite all this to point out that if we are going to develop our resources, transportation is something that is vital to the Canadian economy.

We submit, therefore, that it is clear that if Canada is to take advantage of its opportunities it must during the next decade be prepared to meet a greatly increased demand for transportation of commodities. Urgent consideration has

to be given to whether existing forms of overland transportation can adequately cope with this increased demand at tariffs that do not prejudice Canada vis-à-vis other countries supplying the same markets and whose reserves are not landlocked within a vast interior. It is our submission that the encouragement and development of commodity pipe lines may well provide the answer to the problem.

Had not the use of petroleum and gas pipe lines been encouraged in the early years of our growing oil industry it could have never developed into the stature and position it holds in today's economy. Over one hundred years ago the first oil pipe line cut in half the then prevailing transport cost over its route. In the intervening years pipe line tariffs have continued to trend downward and attract a larger and larger percentage of petroleum volume movements. Reviewing broadly the costs of pipe lines as compared with rail, (based on statistical data available from government publications in Canada and the United States) oil pipe line tariffs have decreased $12\frac{1}{2}\%$ in the period between 1940 and 1964. Based on the same data the average tariff for moving a ton of liquid petroleum 100 miles on this continent is less than 37¢, and for a large diameter line is in the order of 20¢. During this same period of time rail tariffs overall have increased over 30% and now average \$1.38 per 100 ton mile. The most favoured rate in Canada for specific movements by rail of large volumes for export is in the order of \$1.00 per 100 ton mile. This obvious advantage of pipelines for the movement of large volumes has not been overlooked by those in the transportation field. Several railroads in the United States are now owners of pipe line systems.

Apart from the obvious advantage of lower operating costs, a pipe line has an advantage over other forms of transportation in that a steady rate of supply reduces storage and handling problems and, of course, a pipe line is buried underground with no resultant traffic jams, noise problems, or undue interference with the surface of the land.

In view of these considerations we deem it important that the regulation of commodity pipe lines should be such as not to discourage their development. While regulation is necessary when rights of expropriation and matters of public convenience and safety are involved, excessive regulation amounts to a decidedly adverse factor when the possibility of the construction of a pipe line is being considered. Our main point is therefore that it is in the nation's interest to keep the regulation of these pipe lines as simple as possible lest industry be discouraged from expending the large amounts needed to further the research into commodity pipe lining and constructing actual lines when the research has reached a satisfactory level.

We submit that Bill C 231, as presently drafted complicates rather than simplifies governmental regulation. Assuming hydrocarbons are used as a carrying agent, which will frequently be the case, a commodity pipe line comes under the jurisdiction of the Canadian Transport Commission and will presumably be excepted from the jurisdiction of the National Energy Board by complementary legislation. If on the other hand the hydrocarbons are in excess of what is actually required as a carrying agent then the pipe line would appear to come under the jurisdiction of the National Energy Board. This is too fine a distinction and in practice applicants would have to seek approval of both the National Energy Board and the Canadian Transport Commission. Plans for a

particular pipe line may not materialize as contemplated and changes in the ratio of hydrocarbons to solids would likely take place at different stages over the pipe line's life. It is also possible that existing oil pipe lines may be adopted to transportation of bulk commodities with oil as a carrying agent. On the present drafting of the bill, it would be unsafe in any of these cases to rely on the one board having exclusive jurisdiction. We submit that this situation, so far as commodity pipe lines are concerned, is diametrically opposed to the economic and efficient transportation system that is envisaged by the National Transportation Bill and declared by it to be essential to the economic well being and growth of Canada.

This situation would be imposed upon an already elaborate system of governmental regulation. By way of illustration, a project to incorporate a company to construct a commodity pipe line for the transportation of sulphur in propane from Alberta to the West Coast presently involves hearings before each of the standing committees of the Senate and the House of Commons for the incorporation of the company, a hearing before the Oil and Gas Conservation Board of Alberta for permission to remove the propane from the province and hearing before the National Energy Board for permission to construct and operate the pipe line and probably to export the propane. Such regulation is, of course, time consuming and costly. For example, in a recent case in which Shell had an interest approximately four hundred thousand dollars were expended in bringing the project forward to the point where it was rejected by the National Energy Board on the grounds that insufficient investigation had been carried out in some areas.

Once a pipe line has been constructed and put into operation it is necessary from time to time to make various applications to the governing board. For example, the National Energy Board has found it necessary in the interests of public safety to require that its approval be obtained before various equipment such as a pump or large valve be either installed in a pipeline or removed from a pipe line. In obtaining approval it is necessary to submit detailed drawings with written explanations. It would be unfortunate if commodity pipe lines were to be placed in a situation where it became necessary to go through this procedure with two boards.

Another serious problem that would arise if a system of dual jurisdiction were allowed to develop, is that each board would have to regulate the pipe line from the standpoint of its own particular field of jurisdiction. In consequence a project that would be in the public interest when viewed as a whole, could be rejected because no one board had been specifically charged with overall responsibility.

It is our recommendation that legislation should clearly put commodity pipe lines either entirely under the jurisdiction of the Canadian Transport Commission, with the National Energy Board retaining control over the export of hydrocarbons, or entirely under the jurisdiction of the National Energy Board with the Canadian Transport Commission retaining control over tariffs.

Gentlemen, earlier today it appeared that our recommendation probably would have been clearer had we omitted "commodity" from our statement and merely said, "It is our recommendation that legislation should clearly put pipe lines...". To clear up any misunderstanding we have added an addendum which we would ask, if it is possible, Mr. Chairman, to read it into the record.

The CHAIRMAN: You are entitled to.

Mr. RITCHIE:

If sole jurisdiction over commodity pipe lines were placed under the National Energy Board there would be no duplication of effort in administering these lines together with hydrocarbon pipe lines. On the other hand, should commodity pipe lines be placed under the Canadian Transport Commission then, in order to avoid dual jurisdiction, it would seem necessary that the Commission also should be responsible for hydrocarbon as well as commodity pipe lines.

We are not saying, gentlemen, that we favour either the National Energy Board or that we favour the Canadian Transport Commission. All we are saying is that for the sake of the government not having dual departments handling the same thing, and for the sake of ease in being able to present a project for consideration, that you should not have two boards. If the Canadian Transport Commission were to assume jurisdiction it would be our hope that the legislation would require the appointment to the commission of an appropriate number of members who are skilled in pipe lines.

Mr. Chairman, I would be happy to answer any questions.

The CHAIRMAN: Thank you very much, Mr. Ritchie. Mr. Pickersgill, do you have something to ask?

Hon. J. W. PICKERSGILL (*Minister of Transport*): Having reviewed the brief which was submitted to us before today's hearing, we are already considering an amendment, which we will be proposing when we come to the clause by clause consideration to the bill to meet the difficulties outlined in the brief. I might add that we were quite impressed with the brief.

Mr. Rock: Mr. Chairman, it seems very reasonable to me that all things involving transport should come under the jurisdiction of the new transportation commission, but I would like to ask some questions of the witness. It interests me to see the name "commodity pipe line" mentioned rather than gas or oil. Other than gas and oil, what other commodities at this moment are transported by pipe line in Canada?

Mr. RITCHIE: When you talk about oil I assume you are talking about crude oil?

Mr. Rock: Yes, any gasoline or gas other than that.

Mr. RITCHIE: There is crude oil and gas and in addition, of course, there are pipe lines that have petroleum products; gasoline, fuel oils, aviation gas, and so forth. So, there are really three types of—

Mr. Rock: Other than the liquid form, let us put it this way.

Mr. RITCHIE: In Canada, I think I can say, there are no solids pipe lines of any substance. On the question of solids pipe lines, we are just on the threshold of an entirely new approach to transportation. There have been some substantial pipe lines built; Consolidation's coal pipe line in Ohio is one example. There is the gilsonite pipe line, which is 70 odd miles long, out in Colorado, I believe.

Mr. Rock: Do they need a liquid to transport it?

Mr. RITCHIE: Yes.

Mr. ROCK: It cannot be done by air pressure?

Mr. RITCHIE: I know of no solids pipe line yet that is moved by other than some kind of a liquid.

Mr. ROCK: I was wondering what studies were made, say, to transport by pipe line grain from the west to the ports?

Mr. RITCHIE: This is another subject. The Alberta Research Council has done far the most research in movement by capsule type pipe lines. They are embarking right now on a research program supported by industry and government. This is a five year project and they hope to solve some of the research involved in moving by capsule type pipe lines. If you are talking about wheat, obviously it would be a little difficult to move wheat in water and have it arrive satisfactorily at the other end, but there is every possibility that you could put wheat in some kind of ethylene container and move it through a pipe line. This sounds like cloud nine but it is a possibility; the fact that industry is supporting a substantial research effort shows that there is some seriousness in this.

Mr. JAMIESON: I would like to ask, Mr. Chairman, about the opening comment in the brief. Your company is prepared, I take it, to cover most of the financing of this Commercial Solids Pipe Line Company. Does this mean that you are interested in getting into the transportation business as such, or is this primarily for your own use as Shell Oil Company? In other words, are you branching out into another field in this endeavour?

Mr. RITCHIE: In the first place, we are talking about a pipe line to move sulphur and Shell is the largest producer of sulphur in Canada. While the railways do an extremely good job of moving sulphur for us, and we really have no complaint in this regard, it is still costly. We envisage that we can substantially reduce the cost of moving sulphur to the west coast by an amount on the order of, say, \$3 or \$4 a ton. This would be a better return to the producers. We have a selfish interest because we are producers ourselves and want a better return. While Canada is coming up in sulphur reproduction—it is about number 2—our main competitors are the United States, France and Mexico, who all have sulphur at tidewater and transportation, if you are going to be a competitor, is a very important factor.

If we had a pipe line to move sulphur we would naturally expect the economies to be such that it would attract all producers and we would welcome all producers. While we would anticipate that they would want to participate in the pipe line, we would be willing to put up the capital ourselves. Does that answer your question, sir?

Mr. JAMIESON: I am interested in an earlier comment you made about being just on the threshold of this whole business of transporting by pipe line, and what I am trying to determine here is what form you see this development taking? Is it going to be mostly, for example, companies such as your own becoming interested because of a particular problem which they have in their own industry, or do you visualize that perhaps we might start seeing in Canada new companies develop which simply create pipe lines to move all manner of commodities and being in a sense, I suppose one could call them, common carriers primarily?

Mr. RITCHIE: I think both. If we put together this sulphur slurry pipe line, I can suggest it will not be long before there are a substantial number of pipe lines moving commodities. There is some research to be done. We have actively appropriated a substantial sum for research to further this. We have no doubt that we will succeed.

Mr. JAMIESON: May I ask you another question? It may not be within the orbit of your own knowledge but I hope it is. You mentioned some of the new developments. How about the business of moving pulp, for example, fairly long distances from timbered areas to production sites? Do you know if this is now feasible, if there is any clearcut evidence that it will work or is there any place where it is working, perhaps, in the United States?

Mr. RITCHIE: There has been a lot of research done on the movement of wood chips.

Mr. JAMIESON: That is the same thing.

Mr. RITCHIE: Yes, the movement of wood chips by pipe line. To the best of my knowledge no large wood chip pipe line has yet been built. There has been research done in the United States and the Pulp and Paper Research Institute are doing a substantial amount of research on the island of Montreal just west of Dorval. I believe they have done enough research that they feel it would be possible to erect a pipe line and satisfactorily move wood chips.

Mr. JAMIESON: For all practical purposes, it is still more or less in the experimental stage?

Mr. RITCHIE: I would say so, yes. Perhaps I could make one other comment. To really be economical you must consider substantial tonnages moving large distances regularly. You can have a big project in wood chips, and there are several of them—Marathon, for instance, is a contemplated one—but if you have only 60 miles or so from the mill back up to where you are going to cut the wood, it is not as big a project. The smaller the pipe line and the shorter the pipe line the less economy there is in doing this as against moving by rail.

Mr. JAMIESON: If I may pursue this for just a moment, Mr. Chairman, because it has to do with the whole development field.

The CHAIRMAN: Mr. Jamieson, I think, with due respect, we are moving into a field of investigation rather than the recommendations that are dealt with in the bill, but you were opening it up into a field of fact finding rather than into a field of recommendations, which would be right within the bill itself.

Mr. JAMIESON: With respect, may I suggest that the question of control over pipe lines has a good deal to do with the use to which they are going to be put. If they are going to be used by a manufacturer almost exclusively for his own use this, I suggest, puts him in an entirely different category than if they can be used for sulphur one day and for wood chips the next.

The CHAIRMAN: I agree with you there but your questions were not to that point.

Mr. JAMIESON: That is what I was getting at. I want to ask you this; is it feasible to build the kind of pipe line that can, in fact, carry a large range of commodities, or if one is built for sulphur is its use restricted almost exclusively to that?

Mr. RITCHIE: No, I would say it would be possible to move several commodities over a pipe line, particularly if the gravities were similar. For instance, sulphur and potash; they are quite different in characteristics but I am sure you could probably move the two through the same line. If it were found that water or certain hydrocarbons were satisfactory to both from the standpoint of compatibility and reconstitution there should not be any difficulty in batching them through.

The CHAIRMAN: Mr. Schreyer?

Mr. SCHREYER: Your six page brief contained only one recommendation, namely, that the legislation should be changed so that commodity pipe lines should come under the jurisdiction of the new transportation commission or the energy board. In your opinion, which of the two would be acceptable, and, if you cannot give us an answer to that, how can the committee decide on that point?

Mr. RITCHIE: I am really not in a position to say, I can see advantages on both sides. Our only proposition, really, is that it should be one or the other. Maybe I can amplify a little. We have some rather big oil lines. As a matter of fact the largest oil line in the world is interprovincial as far as length is concerned. Also we have trans-mountain which is a fair oil line from Edmonton clear to Vancouver. It is not beyond the realm of possibility that either of these lines might find it economical and expedient to batch through some slurries, and, in fact, move commodities. It you do not sort out the legislation, then, at the moment, you have a line which is under the jurisdiction of the National Energy Board; as soon as it starts carrying commodities do you take it away from the National Energy Board or do you consider, because it is already under the National Energy Board, that it is a commodity line over which you do not have jurisdiction, but that you will have jurisdiction over all new ones?

I think you have got to sort out the legislation now, or you will be in a real "bind". This is the only point I was trying to bring to your attention.

This is quite apart from the standpoint of the pipeline company having to deal with two boards. It is onerous enough. We are not trying to make the point that what the National Energy Board is doing is not in the public interest, and a necessity, but there is a very substantial amount of effort and work placed on all pipelines to comply with what the board requires of us now. If we have to do this for two boards with different interests, then, really, the business of trying to establish pipelines, which are going to further the interest of Canada, as we have tried to point out, is going to be hindered.

Mr. SCHREYER: What about the proposition that jurisdiction, or control, over pipelines might very logically be carried out by one agency, and jurisdiction, or regulation, of the product transported within the pipeline might very logically have to come under the jurisdiction of another agency? What I am saying is that the jurisdiction over the pipeline itself seems obviously to be a matter of transportation, but it seems logical that licencing of the commodity shipped within the line should be left with the energy board. Do you disagree with that?

Mr. RITCHIE: I think, sir, in part we have inferred this in our recommendation.

Mr. SCHREYER: Therefore, so you are not hoping for a complete transferring over to one agency?

Mr. RITCHIE: Let me read this and see if I understand your question.

It is our recommendation that legislation should clearly put commodity pipe lines either entirely under the jurisdiction of the Canadian Transport Commission, with the National Energy Board retaining control over the export of hydrocarbons,—

In that case the National Energy Board still performs its role of over-all interest in energy.

—or entirely under the jurisdiction of the National Energy Board—

In other words, they have already got the facilities. They have a department to handle, on your behalf, the questions of whether the pipeline is sized right and safe and in the public interest and so forth, and you would merely control the matter of tariffs which, I gather, is compatible with your interest in all other matters of transportation. This only a suggestion, but I do not know how else you can deal with it.

Mr. SCHREYER: It is a very reasonable submission but it still leaves you having to contend with two separate agencies, which is the point you felt would be undesirable.

Mr. RITCHIE: I really do not think that this would be onerous. For instance, in the matter of tariffs, the National Energy Board Act, under which they act, gives them the right, obviously, to control and regulate any tariffs of any pipelines under their control. I think all pipeline companies have acted prudently, and to the best of my knowledge they have never really exercised this right. That does not mean that they do not have the right, and that you are going to charge an exorbitant rate. I would think the same thing would happen here if we were dealing with tariffs with the Canadian Transport Commission. I would not think this would necessarily be onerous for us; but it would be onerous if, in fact, every time we wanted to increase the size of a pipeline—assuming that we did have a commodity pipeline—or anything in the day of engineering, we had to go through two boards to have it approved.

The CHAIRMAN: Mr. Deachman?

Mr. DEACHMAN: I would like to ask a couple of questions of the witness regarding his proposed company for which an application for incorporation has been to Parliament.

What is the present status of that bill? Was it entered in the Senate, or entered in the House of Commons, and where does it stand now?

Mr. RITCHIE: It has been passed through the Senate. It has not been entered in the House of Commons.

Mr. DEACHMAN: It has passed through the Senate and it has not been entered in the House of Commons.

Does the nature of that bill indicate that this company is to be a common carrier, or could act as a common carrier?

Mr. RITCHIE: We stated in evidence before the Senate committee that this is the way we would operate. It would be our intention to operate this way. I do

not think the bill specifically sets this out. I do not think this is normal in the bill.

The bill, as you understand, is simply to incorporate a private act company, which is required if, in fact, the intention is to move hydrocarbons through it. If we were not going to move hydrocarbons through it we really would not need a special act company in order to move solids. I believe I am right in that.

Mr. DEACHMAN: Does this mean that you would be able to move the hydrocarbons of any company through it, for hire?

Mr. RITCHIE: This is right.

Mr. DEACHMAN: This is right?

Mr. RITCHIE: Yes.

Mr. DEACHMAN: Therefore, it would be a pipeline for hire to companies other than Shell Oil Company?

Mr. RITCHIE: We would expect to conduct ourself as a common carrier, and the National Energy Board Act requires that pipelines over which they have jurisdiction—ones which go across provincial boundaries—have to conduct themselves as common carriers. This would be our intention. I think we would be in hot water if we did not do so.

Mr. DEACHMAN: Therefore, in the sense that an interprovincial pipeline is a common carrier you would also be an additional common carrier in the pipeline field?

Mr. RITCHIE: Yes.

Mr. DEACHMAN: I notice in the first paragraph of your submission you say that Shell Canada Limited is the sponsor of this bill and is willing to provide all, or the major part of, the capital required. The authorized capital as mentioned above is \$100 million. Do I understand then that Shell of Canada would hold the stock and the voting shares of that company?

Mr. NOWLAN: Mr. Chairman, on a point of order. What relevancy does this question have to Bill No. C-231? Mr. Deachman undoubtedly can ask these questions before the standing committee when this bill is presented, but I thought we were here to discuss this company's recommendations on bill C-231, and not discuss another bill to incorporate a company to carry a product in a pipe line. We can be here all day. I do not understand the relevance of the question. I think it is out of order.

Mr. LESSARD (*Vice Chairman*): I think the point is well taken. I would ask Mr. Deachman to come back to the original—

Mr. DEACHMAN: I will let that question go for the moment. I may come back to it again.

Mr. CANTELON: The question I wanted to ask has perhaps an economic implication and an implication as regards the future development of this country.

I note that on page 2, in particular, you emphasize the point that these commodity pipe lines are necessary in order to develop our natural resources. The thing which disturbs me is that if we lower the transportation costs a great deal by the introduction of commodity pipe lines are we not in effect, going to

price ourselves out of the market of developing the secondary industries in the places where these natural resources are, which, in the long run, would give us more development in the country than by just moving these products out cheaply?

Mr. RITCHIE: Sir, I think that in the matter of coal, for instance, or the matter of potash, we have adequate reserves; and in the matter of trying to better the dollar exchange that we have we would probably want to maximize. If, for a reason, we did not, you still have to bring the raw material to market. If you are going to do this in Canada and have it as a secondary industry I would say to you that it is still important to get the transportation cost down, and that you would not want to necessarily have your factories several hundred miles from what would be the market for your secondary production. I would think that there is still a very great need to minimize your transportation cost.

Mr. CANTELON: Well, I can understand that if you are talking, for instance, about the coal fields in Saskatchewan. It is doubtful that we would move iron ore long distances—from Labrador, for instance—to the coal fields, because then the products would have to be moved away from there although this, in effect, is what they do in the United States; they actually move the iron ore to the coal rather than the other way around. In the long run it might be harmful to us to have a commodity pipe line which would move the coal out.

As far as the potash is concerned, we now find that in Saskatchewan there are some chemical factories being developed, and if we move that potash to the Chicago market, which is where I think it would actually go, we can take it for granted that they are going to have all the chemical factories and all the development there, and not in Saskatchewan. Or can we?

Mr. RITCHIE: The potash is mainly a commodity for fertilizer. I do not want to get involved in an extraneous tangent here, but really the fertilizer is needed throughout the world for agricultural implementation to take care of the population explosion which we hear so much about.

In the 1970s half of the potash in the world will be coming out of Saskatchewan. It really is important to try to lower the transportation costs, if we can. As I said, moving this to tidewater, a good quarter to a third of it is in transportation.

Mr. CANTELON: I understand that; but if my history is not too far out I think it was in some area in Europe that potash was first found. The chemical industry in Germany was actually founded upon the potash discovery. I would like to see the same thing happen in Saskatchewan. If you move it out in too cheap a way I am afraid there is never going to be much prospect of that developing.

Mr. RITCHIE: Mr. Chairman, I would be glad to go into statistics if it is desired and show this gentleman that with the substantial volume of potash which we have if you find a market it is going to be in the export field.

Mr. CHAIRMAN: Mr. Cantelon, we will be wandering again.

Mr. CANTELON: Excuse me, I think this is very significant, because this is one of the important factors, in my view, in how much development there should be in commodity pipe lines.

The CHAIRMAN: We are not concerned with how much development there should be, but with the control of that development, Mr. Cantelon.

Mr. PICKERSGILL: Mr. Chairman, if you would permit me I would like to say that all this bill does is to say that if we are going to have commodity pipe lines they should be under the control of the Canadian Transport Commission. It does not say whether it is desirable or not desirable to have them. It will not advance the building of them by one single day if we pass this bill, nor will it retard them if we do not pass it. Therefore, it does seem to me to depart from the subject, even though it is of the greatest interest and probably of much more interest than the bill.

The CHAIRMAN: That is my point. We are dealing with control, Mr. Cantelon.

Mr. CANTELON: I realize that very well, Mr. Chairman, but I still think that there has to be some place where we can get these facts. This seems to me to be about the most appropriate place and time to get them.

Mr. CHAIRMAN: I would be very happy if Mr. Ritchie would send you the facts in the mail. You will have them for yourself for future debate.

Mr. CANTELON: I know most of them.

The CHAIRMAN: Mr. Schreyer. Oh, I am sorry. I have Mr. Nowlan next, on the list. Was it about what the Minister stated?

Mr. NOWLAN: Yes.

Mr. SCHREYER: Mr. Pickersgill, you stated a few minutes ago, at least in partial response to this submission, that certain amendments would be proposed to the section having to do with commodity pipe lines.

Mr. PICKERSGILL: I cannot tell the Committee precisely what form they will take because we are having some discussions with the National Energy Board.

I do recognize that it would be most undesirable for the entrepreneurs who want to build a pipe line to have to make a case for building it or a case for twinning it—that is not the word you use—that refers to a canal.

An hon. MEMBER: Looping.

Mr. PICKERSGILL: Looping—Twinning is something which I have more to do with—and you Mr. Chairman. It does seem to me that to have to make technical submissions and get permission from two boards would be a perfectly unnecessary kind of bureaucratic regulation. What we want to do is to avoid that.

I also agree completely with the brief that, if there is to be any control of tariffs, since that is the business of transportation, and since we are trying to co-ordinate transport—that that control is a proper function of the Canadian Transport Commission. Certainly the Canadian Transport Commission has no thought, no desire—and it would be totally inappropriate for it—to enter into any consideration to the extent to which hydrocarbons should be exported. That is one of the things we have the National Energy Board for, and it would be quite wrong for the Canadian Transport Commission to have anything to do with it. I think the witness has made a perfectly sensible submission, and with the submission itself I completely agree.

Mr. NOWLAN: I have two questions. One question is out of order, for your information! It is just that I did not hear the witness when he was giving his

evidence. He has already answered it but I did not hear him. You mentioned the reserves for coal in the provinces of Alberta, Saskatchewan and British Columbia, and then you said that in Nova Scotia it was only five per cent of the total national reserves. Is that the figure?

Mr. RITCHIE: I think that in trying to get to grips with the advantages of minimizing transportation, and the problem of opening up reserves, what I indicated was that although we hear a lot about the coal problems it is really all with regard to subventions in the Atlantic provinces.

In the matter of reserves, there are only about five per cent of the coal reserves in Canada—less than five, I believe—in the Atlantic provinces. Our major coal reserves are in Saskatchewan, Alberta and British Columbia, and except for the Queen Charlotte Islands most of it is landlocked, with high cost transportation to get it to market; and I suggest that there is an area here where a pipe line moving coal could reduce transportation cost.

Mr. NOWLAN: I will not go on further about coal because I know it is out of order at this stage, although some things have been said with which I do not necessarily agree.

The other question is: I have perused the Bill, and as a commodity pipeline shipper, or intending shipper, the only recommendation you bring forward to the Committee is this matter of control going to the national board of the Canadian Transport Commission. There are no other recommendations on the Bill at all?

Mr. RITCHIE: It is one of those practical briefs, Mr. Nowlan.

Mr. NOWLAN: I am interested in the brevity of the brief and the paucity of the recommendations on a subject which that applies to the whole—

Mr. RITCHIE: Mr. Chairman, I think we can go through the brief and probably pick out some areas where Shell, as a company, would perhaps like to see changes.

You will notice in the brief that we have not said anywhere that this would benefit Shell, one way or the other. What we are really saying here is that, in the interests of Canada, we think that the legislation should be changed, and whether we ever have a commodity pipe line, or not, is incidental. The only reason that we are here, though, is that we hope that we will have a commodity pipeline some day. All we are saying is that this is a real grey area and that it should be fixed up. We are really not making any other point.

Mr. NOWLAN: You do not even say this Bill is a good thing. I do not see any positive statements on this Bill.

The CHAIRMAN: As Mr. Ritchie said, they were interested in one particular item and they dealt with that particular item. Therefore, I think our questioning should be directed to that particular item in their brief.

An hon. MEMBER: They are not politicians. They get to the point.

Mr. LANGLOIS (*Chicoutimi*): Mr. Chairman, the fact that they did not say that it was not good—

The CHAIRMAN: Are there any other questions?

If not, I would like to thank you, Mr. Ritchie, for your presentation of your brief brief, and for the practical recommendation that you have presented to the Minister.

You are one of the more fortunate of the witnesses who have appeared before this Committee. Thank you very much.

We have before us two letters, and I would like to have motions for them to be printed as appendices to *Hansard*.

One is from the Dominion Marine Association. They do not intend to appear, but they have submitted a two-page letter.

Could I have a motion to have this printed as an appendix to *Hansard*?

Mr. LESSARD: I so move.

Mr. ROCK: I will second that.

The CHAIRMAN: All those in favour?

Any opposed?

Motion agreed to.

The CHAIRMAN: The Vancouver Board of Trade have made certain recommendations in a letter.

I would like to receive a motion to have this printed as an appendix to *Hansard*.

Mr. CANTELON: I so move.

Mr. JAMIESON: I will second that.

The CHAIRMAN: All those in favour?

Any opposed?

Motion agreed to.

The CHAIRMAN: We also have to go through an election. Our Vice-Chairman was Mr. Lessard, and he had to be removed for a while. He is now back, and we will have to have his re-election. I would like to have a motion for the re-election of Mr. Lessard as our Vice-Chairman.

Mr. CANTELON: I will so move.

Mr. SHERMAN: I will second that.

The CHAIRMAN: All those in favour?

Any opposed?

Motion agreed to.

The CHAIRMAN: We are pleased to have Mr. Lessard re-elected as Vice-Chairman.

There is a matter left over from last Thursday. It has to do with a motion moved by Mr. Olson. It was withdrawn, and Mr. Olson was to present it again today.

Mr. OLSON: I withdrew the motion last Thursday at your request, as you well know. I would like to submit this motion to the Committee again. Whether I should read it all or not, it is to the effect that the President of the Canadian Pacific Railways be called before the Standing Committee on Transportation

and Communications of the House of Commons and that he be requested to provide the following information:

- (1) The variable cost of the carriage of a number of items listed A to J.
- (2) The C.P.R. freight rate in effect on October 15, 1966, for each commodity as listed.

I will give you the list.

I would like to say to you, Mr. Chairman, that there is a paragraph that—

The CHAIRMAN: I will read the motion; moved by Mr. Olson and seconded by Mr. Schreyer. The motion reads as follows and I will read it for the record: Moved that the President of the Canadian Pacific Railway be called before the Standing Committee on Transportation and Communications of the House of Commons, and that he be requested to provide the following information:

- (1) The variable cost of the carriage of (a) a 30,000 ton carload of potash from Esterhazy, Saskatchewan, to Vancouver, B.C.; (b) a carload of potash carried in the weight of carload most commonly carried from Esterhazy to Vancouver; (c) a 30,000 pound carload of steel sheets from Hamilton to Edmonton; (d) a 100,000 pound carload of steel sheets from Hamilton to Edmonton; (e) a 30,000 pound carload of chemical fertilizer from Medicine Hat to Vancouver; (f) a 100,000 pound carload of chemical fertilizer from Medicine Hat to Vancouver; (g) a 30,000 pound carload of lumber from Kamloops to Winnipeg; (h) a 30,000 pound carload of sulphur from Pincher Creek, Alberta, to Vancouver; (i) a 30,000 pound carload of dressed beef from Lethbridge to Montreal; (j) a carload of dressed beef, carried in a weight of carload most commonly carried, from Lethbridge to Montreal on the Canadian Pacific Railway.

I might add that what follows is in addition to the previous motion moved on Thursday.

- (2) The C.P.R. freight rate in effect on October 15, 1966, for each commodity as listed in paragraph one (a) to (j).

Mr. OLSON: I am not sure whether all of the members who are present now were present when I made my comments respecting the need for this information last Thursday. Perhaps, with your permission, and with the indulgence of those who are here, and for the benefit of those who were not here then but are here now, I could go over this briefly.

In the first place, Mr. Chairman, I regard section 336 of Bill 231, which deals with what the law will provide in the event that a shipper is unable to negotiate a satisfactory freight rate with the railways, to be, if not the most important, at least one of the most important clauses, in this Bill. It does, as you will know and as the members will know, introduce a completely new concept in the matter of maximum freight rates—maximum rate control, if you like—and I believe that the members of the Committee, if they are to do their duty to the Canadian public, generally, and to the economic well being of Canada, ought to have some facts which are current respecting the factors which become involved in establishing this maximum rate control.

I think that it is fair to say that what I have asked for in this motion are only a few samples. For the most part, in fact, as far as I am concerned, I have meticulously selected which would fall into the category of the 29.6 per cent of non-competitive commodity rates which the railways acknowledge are in effect

now; in other words, commodities that fall into that area. Therefore, this variable cost data is of no value, for any other mode of transportation. In addition to that, Mr. Chairman, section 337 of this Bill specifically states that the railways shall exchange information respecting costs, including the costs which I am asking for. It says: The railway companies shall exchange such information with respect to costs as may be required under this Act and may agree upon and charge common rates. Therefore, with this provision in the Bill, there is no argument that can be advanced that this information would be of value to some other railway carrier for whom the Bill does not already provide.

I do not know exactly why that Section 337 is in here. I suppose it is—not to get around—to supersede the provisions of the anti-combines legislation—but that does not apply anyway.

However, the point I am making is that the Bill specifically states that the railways shall exchange cost data in so far as carriage of goods is concerned. Therefore, what I am asking for certainly cannot encroach upon this so-called proprietary information in so far as the competitive factor between the railways is concerned.

The argument has been advanced, Mr. Chairman, that we should leave all of this to the new Transport Commission: that they will be competent men, and they can look into this. The railways will give them this information and they will lay down what the maximum rate would be on the basis of that information using the formula that is laid out in clause 336 and in particular, clause 336, paragraph 2.

I want to make it clear, Mr. Chairman, that I have full confidence that members of the new transportation commission will be capable men: that they will be men of integrity and that they will be able to discharge their responsibility in this respect. What I say to you, as far as a Committee is concerned that is charged with the responsibility of recommending to parliament what the law ought to be is this: The commission can only apply the law. They cannot change the law. If a situation arises where a shipper or a number of shippers are dissatisfied with the negotiations and the rate that they are able to obtain from the railways under negotiation, the only recourse in the bill for them is to ask for the provisions of clause 336, and this commission, no matter how competent or how well they perform their task, has no alternative but to apply this formula.

Therefore, I think, Mr. Chairman, that we as a Committee ought to know in advance, at least on a sample basis, what the effect of applying this formula will be. As I said before I have only asked for a few samples and as far as I can tell they are all in the non-competitive area.

Mr. Chairman, I want to say further that the photostatic copies of the correspondence and telegrams that were placed before this Committee last Thursday indicate that a number of the provinces, particularly Alberta, Saskatchewan and Manitoba, are prepared to assist this Committee substantially with a cost analysis of what would happen with the application of 336, providing they had some information. At the present time they have none of this information and therefore no calculations are possible.

I understand that these provinces are prepared to hire very highly qualified cost analysts who are familiar with railroad costs and so on. I think we should give them, at least, some samples so that they can work on them.

I want further to submit, Mr. Chairman, that the information that is asked for in this motion is to the best of my knowledge made known, in so far as the railways are concerned, in the United States to the Interstate Commerce Commission, and subsequently made public. This has had no detrimental effect so far as I can tell, on this so-called competitive position. Whether the railways did in the first instance raise the plea that it was proprietary information that would undermine their competitive position or not, I am not sure. The fact is that it is done and it does not seem to damage the railways' competitive position substantially there.

The other question that has been raised, Mr. Chairman, is whether or not we have the power to ask the President of the Canadian Pacific Railway to provide this information. We had a prime example of what can happen when a committee requires information and it is not forthcoming. I refer to the committee on consumer credit and consumer prices.

We have the power in this Committee to send for persons, papers and records and I do not think that any member of this committee needs to be apprehensive or confused about whether or not we have the power to ask for it. This was raised a number of times last Thursday.

Essentially, Mr. Chairman, the main burden of my argument for demanding this information is that when we write the law, when we lay down the formula under which the transportation commission is going to operate, is that if we as elected members of parliament are going to do our job, we surely must know in advance what the application of this formula is going to be if we are going to recommend to parliament that this be the formula and the basis for maximum rate control whenever it is necessary.

Mr. PICKERSGILL: Mr. Chairman, I am very grateful to you for letting me reply immediately to what Mr. Olson has said. I will have to say right off that I do not find it possible to agree with the case he has put. I would like to deal first with the specific points he made and then make a general comment after.

I quite agree with him that the publication of the information that he is asking for in this motion would almost certainly be of little or no value for any other mode of transport, if it falls in the field of non-competitive rates. I do not think that anyone who has had to deal with this problem, as I have had, with respect to questions asked by others outside the Committee and outside the house, have ever suggested it had. What it does have in my view is a prejudicial effect upon the bargaining position of the railways with respect to their customers. The whole purpose of the bill is to provide a customer who is forced to use the railway the protection of the law and to provide the competitors of the railway with insurance against cutthroat competition.

In other words, we have said that someone who has no other way of shipping ought to be protected by parliament; that the railroads should not be allowed to charge less than the value it costs for transporting goods in order to extinguish competition. Obviously, they would not do it for any other reason. Those seem to me to be proper objects. We have said that instead of the present system of regulation in the other areas, we should allow the forces of competition to do the regulating.

It surely is really unfair, unless we are going to say all forms of transport are to expose all their costs all the time to their customers and it is surely

unfair to single out the railways apart from any other industry and say they must expose their costs on the carriage of certain types of commodity, unless those commodities are clearly commodities on which they have not already demonstrated a bargaining power sufficient to get a rate better than any maximum rate that is likely to be fixed.

I can provide public information on all the items that Mr. Olson has given. I can give the present maximum rate and I can give the rates that the shipper is actually paying. These things are all published, and I think I ought to do that because I think it reinforces far more than any words I could use, and illustrates the point I have been trying to make.

In the case of potash, for example, from Esterhazy to Vancouver, there are no shipments of 30,000 pound lots. If there were, the present maximum rates that would apply would be \$2.99 a hundred pounds. The shipments are in carloads with a considerably larger load. The present maximum rate would still be the same, \$2.99 a hundred pounds. The rate they are actually paying is 45 cents a hundred pounds. It is a non-competitive commodity rate. That would suggest to me that they already have a pretty substantial bargaining position. They are paying 45 cents and the maximum rate that the law now allows is \$2.99. Take steel sheets from Hamilton to Edmonton. Again, these are not shipped in 30,000 pound lots. If they were the rate would be \$3.68 a hundred pounds. They are shipped normally in 100,000 pound carload lots, and the maximum rate that could be charged by law is \$3.68 per hundred pounds. The actual rate, and it is an agreed charge in this case, is \$1.95, which seems to suggest in this case the shipper has been able to bargain pretty effectively with the railway.

Then we have chemical fertilizer from Medicine Hat to Vancouver. The present maximum rate is \$1.48 per hundred pounds, and that would be the case whether it was in a 30,000 pound carload lot, by which it is not shipped at all, or in the 100,000 pound carload lot, which it is. While the maximum rate that they could charge by law is \$1.48, the normal rate for domestic consumption is 59 cents, and they have a special export rate of 39 cents per 100 pounds, again suggesting that they have had a pretty effective capacity to bargain with the railway.

In the case of lumber, from Kamloops to Winnipeg, the maximum rate that could be charged is \$1.68 per hundred pounds, and there are two rates, depending on the amount shipped. One rate is \$1.24, an agreed charge, for a minimum of 40,000 pounds, or \$1.08 for a minimum of 80,000 pounds. Now, those are substantially below what the present maximum the law allows.

In the case of sulphur, from Pincher Creek to Vancouver, the maximum rate for a minimum of 40,000 pounds is \$1.75. That is the rate that the law allows them to charge. The rate that is actually charged is 45 cents per hundred pounds, with a minimum of 150,000 pounds.

Now, in the case of dressed beef, from Lethbridge to Montreal, the maximum rate is \$4.98 per hundred pounds for a minimum of 20,000 pounds, and the actual rate that is being paid is \$3.14 for a minimum of 28,000 pounds. It seems to me that in every one of these cases it is quite apparent that the shippers already have sufficient bargaining power with the railways in that they are not paying the maximum rates now provided.

Mr. HORNER (*Acadia*): I wonder if you would explain "present maximum rate". What do you mean? Where does that come from? Is that under the bill?

Mr. PICKERSGILL: No, that is the rate that the law of Canada right now, today, allows.

Mr. HORNER (*Acadia*): The Board of Transport Commissioners has approved it?

Mr. PICKERSGILL: Yes, that is right. The argument that was used in the letters to the premiers, or in the telegrams to the premiers, and the arguments that I have used two or three times here, are exactly the same, and I think it is a very hard argument to refute, namely, that if a shipper already has sufficient bargaining power that he does not pay the maximum rate under the law now, his bargaining power is not going to be reduced by the passage of this bill. He is not, therefore, going to make himself into a captive shipper under this bill. Why would he? He has a rate now that is lower than the present legal maximum, and therefore why on earth would he—unless he thought the new maximum was going to be lower than the rate that he now has. It might be, or it might not be. But surely the purpose of this bill is not to give to those who already have substantial bargaining power additional bargaining power against the railway.

The purpose of this bill is to protect the shipper who has no bargaining power and who has to rely upon a maximum rate prescribed by law. That is why, in the messages that were sent by the Prime Minister and the message that I subsequently sent to the premiers, I said that if we could be given typical samples of persons who, under this legislation would be captive shippers, then we would go to the railways and put the question to them. But to go further than this when we are trying to make the railways of Canada self-reliant instead of reliant upon the Treasury would I think defeat the whole purpose of this legislation.

Let us not forget that is pretty important when \$110 million is being paid out to them in the year 1966, out of the taxpayers' pocket, for shipping goods. We want to make the railways self-reliant as far as possible. However, we do not want someone who is unable to ship any other way except by railway and who has to pay whatever the maximum rate is because he has no bargaining power with the railways, to be in the position of being victimized. That is the purpose of the maximum rate formula. It was never contemplated that many shippers would, in fact, pay it because nearly all shippers today have really an economic bargaining power at least as great as the railways, and in many cases greater, and there is surely no need for us to prescribe regulations in cases of that kind.

There is no doubt that if we had an entirely planned and organized economy, where every regulation was made by some economic bureau, that is what would be done. But we do not operate at the present time under that system, and it does seem to me that we would be defeating the very ends of this bill.

I want to make it clear that if I could be convinced that there was any substantial person who is now paying the real maximum rate that the law allows, and it looked as though he would be victimized, I would be concerned. So far no shipper has made any such suggestion to us and no one else has suggested any such commodity. From the table I have read of the whole list of commodities, that Mr. Olson mentioned in his motion, they are already moving

at rates that are lower than the maximum rates now prescribed by the law. It does seem to me—and I am not questioning the rights of parliament to get this information if parliament wants it at all—I am just saying that I do not think it would be in the public interest. I think it would defeat the purposes of this bill if we forced the railways to give to their shippers information that would increase the bargaining power of those shippers in relation to the railways. Let us not forget this, and this is the main argument that I really want to make. The railways of Canada have to have a certain amount of revenue in order to operate. They are going to get that in one of two ways, or they are not going to operate. They are going to get it either from the shippers or they are going to get it out of the public purse. Now, it may be that in certain cases they should get it out of the public purse. That is a perfectly arguable point of view.

As Minister of Transport, I happen to belong to a government that thinks we should try to minimize that as much as possible, and as far as is fair and equitable to the whole community the users should pay for the service and not the taxpayers; that that is a more equitable and fair way of doing it. Now, if we weight the scales so that some shippers pay less than their share, less than their bargaining power will enable them to do, the railways have either got to come to the Treasury and beg for the money, or they have to charge more to some other shippers. It is just as plain as that. It does seem to me, therefore, that unless it can be shown that some shipper is really not going to have any bargaining power of his own, nor any competitive position—and by competitive position I do not mean that there is a truck going by his door—he is not likely to be a captive shipper. In the case of farm machinery, we all know what sets the rates. There is no tariff on farm machinery in Canada. The rate to western Canada from eastern Canada is set to meet the competition from the midwestern United States and that is just as effective competition as though there were some other mode of transport wholly within Canada. There are these factors in the case.

It does seem to me that, unless we are going to defeat largely, what I regard as one of the main purposes of this legislation, we should not demand from the railways any information that will only be helpful to some other private industry. We should demand it only if it is going to serve the public interest. It appears to me that the only public interest that could be served, is the interest of someone who is in such a weak position that he will have no choice but to pay whatever rates the railway wants to charge, or not ship at all. Therefore, we must have some kind of formula to meet that kind of shipper and, the MacPherson Royal Commission have given us a formula which we have basically accepted, although we have made certain adaptations about the quantities and, we have made another very important change in the bill and that is, that it will all be reviewed by the commission in the light of experience.

I remain quite unconvinced that any genuine public interest would be served by obliging the railways to give this information. I think it would weaken the railways' capacity to relieve the taxpayers of the burden that is now falling upon them, and this has become a steadily growing burden. Therefore, I would hope that the Committee would see fit not to ask for the production of this information.

Mr. HORNER (*Acadia*): Mr. Chairman and fellow Committee members, this Committee is dealing with one of the most important pieces of legislation that

will probably be dealt with by this Committee for a good many years. Let us have no misunderstanding about this fact. I have sat on this Committee for the past 8 or 9 years and it has dealt with important legislation, but nothing of the scope in which this bill is going to apply all across Canada. Let us take that fact into consideration first and foremost. We are dealing with a very important piece of legislation which is going to affect transportation all across Canada for a good number of years to come. If we agree thus far, let us look at what Mr. Olson is asking the Committee to do and let us look at the ramifications of this in respect of the bill itself.

The minister has stated that this \$110 million is a burden on the treasury and, the whole purpose of this bill is to remove the burden on the treasury and to allow those people who are actually using the modes of transportation to pay for them.

Mr. PICKERSGILL: I would not quarrel very much with you but I do not think it is the whole purpose of the bill.

Mr. HORNER (*Acadia*): No, but it is one of the main purposes. I did not mean to indicate that it was the whole point, but this is a summation. We must remember, as Committee members, that transportation has been subsidized in Canada since the very beginning of confederation. We established in the early 1900's, a Board of Transport Commissioners to rule and regulate particularly in the field of railway transportation. Why did we do that, why was it in the public interest, for the government of the day to establish a Board of Transport Commissioners to begin with? It was because there was a monopolistic atmosphere in which they were operating and, because of monopolistic conditions, in certain areas of Canada, it was felt their rates should be regulated.

This bill suggests that the monopolistic conditions the railroads operated in at one time, have completely disappeared. The bill suggests that because the monopolistic conditions have disappeared, freight rates should be thrown wide open and the railroads allowed to charge as much as possible. First of all we have to consider, if all this is so, how great the rates will be and what protection will there be in the areas where monopolistic conditions exist. I am not so worried about the \$110 million, when I see here in Ottawa that \$42 million is being spent on a cultural centre, which will have dubious value. I am not so worried about something which is intended to equalize opportunity and development across Canada, because this is what subsidization of transportation has done. But before we in the west can accept this bill, I think it is obvious that the three provincial premiers are concerned about this bill.

The CHAIRMAN: We have not heard from them yet, Mr. Horner.

Mr. HORNER (*Acadia*): That well may be, but in the letters and telegrams that were presented to the Committee, they express their fears in removing all the regulations and limitations on railway transportation in their provinces. This week in the *Manitoba Co-operative*, it was reported that the people who were here last week representing the wheat pools went away concerned and in doubt, as to the actual ramifications of this bill on other transportation goods.

I think we in the west are justified in being concerned, in having some fear whether or not we will be subject to it. We are giving up many things. We are giving up the discriminatory clauses in the old bill, non-competitive rates—the

railways have to apply to have them raised—for a limited and, I say very very cautiously, limited amount of protection, because evidence before the Committee so far has suggested that this is so. One in a thousand may use it. Mr. Sinclair of the C.P.R. said that he could not think of anyone who would, but there might be someone who would use clause 336 of this new bill. We are giving up the lot. Our fears are not really set aside by the witnesses so far today.

I think in all fairness to the CPR and the Committee here, that Mr. Olson is not asking for too much; but before we give up all this, we should have a better understanding, a clearer mathematical application of costs in it. It is interesting to note what Mr. Sinclair said in costing, the costing process in arriving at railway costs has greatly accelerated and simplified over recent years. Why has this come about? It has come about because figures were made public as to costing methods before the MacPherson Royal Commission.

Mr. Sinclair also said that since releasing those figures, the headaches have been greater than if they had not released them. I accept that fact, but the point I am trying to make is that costing has been simplified, and the costing process has been better understood since the releasing of costing methods and actual costs with regard to grain transportation before the MacPherson Royal Commission. I do not think that anyone in the transportation field will dispute that fact. It was a good thing. It may have caused headaches to the railways, to the CPR, but it was a good thing to release those costing figures; it speeded up the costing process; it made the costing process of the railroads better understood and, therefore, was good for transportation over-all. It was an improvement. We have now reached a plateau on which we can operate from. Anybody interested in it has a plateau from which they can work. A bench mark has been established for the costing process. All we are asking is, to raise the bench mark a little higher, to give us a little better understanding of the general mathematical applications of this bill. I urge you, Mr. Chairman, and the Minister not to be so secretive. Let us set aside our fears with regard to the CPR.

The CHAIRMAN: This is in the hands of the committee, Mr. Horner, and not in the hands of the chairman.

Mr. HORNER (*Acadia*): Excuse me, Mr. Chairman, I meant the committee, through you. Set your fears aside. If I could find any fault with this motion I would think that it should apply to the Canadian National Railways as well as Canadian Pacific, and that would be the only fault I could find with it. But another motion could be moved in that regard. Let us not worry. These facts and figures can all be ascertained if one wants to do a little research after the bill has been passed. After the bill has been passed these facts and figures can be ascertained through the application of the maximum formula that is in the bill. So let us not put the cart before the horse. Let us look at the facts and figures first. If necessary, let us have a meeting in camera. What have we got to lose? We have everything to gain. I hope all committee members weigh their decision in this regard. This is an important piece of legislation. We, in some areas of Canada are asked to give up quite a bit of protection, getting very little in return, and this is why we are concerned and are expressing real fear. We will continue to express real fear until those fears are satisfied with a greater knowledge of the costing processes which will be employed.

Mr. STAFFORD: I was away last week when this motion was introduced but I have been listening to Mr. Horner's historical review. In the early part of the 20th century the only effective competition I can think of at the time was the horse and buggy. Things are just a little different today.

Now, the railways have already given us evidence—from the little I heard of Mr. Sinclair's evidence and what I heard of the CNR's evidence—that they object to providing figures of costing methods to competitive modes of transportation. Mr. Sinclair already told us they have no objection to providing their rates and their costing methods to the railways—in fact they do it already; but it certainly would not be a very fair thing, I would say, to make it public. I sometimes wonder if these figures were made available to us would we be in any position to analyze them or would any of us have the necessary background to make effective use of these figures in such a way as to do any more than just waste our time. Mr. Sinclair I think was asked a question about the 150 per cent and he said that is the very minimum on which they could make a profit. As you know, I am just new on this transportation committee and never having been on it before, having only sat in the House for a few months, I may not be perfectly clear on that. But, the one question Mr. Sinclair was very clear on was the 150 per cent—variable cost plus the 150 per cent as the very minimum. In fact, all of us had an opportunity to ask Mr. Sinclair for examples and he gave an example in which the variable cost plus 300 per cent was a rate that the shipper was very happy to have. In fact, as the Minister just told us, maximum rates are charged in very few instances, if any, today. The witnesses for both the CNR and the CPR gave as an example the potash industry where, they said, if the rates were not fair, there just would not be any potash shipped and the huge investment made by the CNR and the CPR for this industry would be lost and there would be no potash shipped anyway. He also gave us an example of iron ore. Now it is necessary that these rates be fair and far below the maximum because there would not be any iron ore shipped at all and the railways would have nothing, if competition did not set the rate. He told us about nickel coming down from Thompson, Manitoba to Fort Saskatchewan and how that nickel had to be shipped at an effective rate. I cannot see, considering all the examples and the words of Mr. Olson's motion, any effective use these figures would give us except to damage the railways by providing us with figures that I have not seen anyone here yet could handle.

Mr. FAWCETT: I am not going to take up very much time, Mr. Chairman, but I do not like to be put in the position of voting on something that discriminates against the CPR. However, on the basis of the figures we have here today, the difference between the rate that is being charged on potash and the maximum rate is from 45 cents to \$2.99 a hundredweight. Now this raises a question in my mind as to the position of a shipper who is not in a position to negotiate very successfully. There is a variation of approximately \$2.54 a hundredweight on which the railways can bargain. Now, so far as I am concerned, I would have to agree partially with the member over here, that perhaps these figures would not be too much benefit to us but, on the other hand, I still have to be concerned about this possible captive shipper who is going to be placed in a position where, perhaps under certain circumstances, he would be paying a rate that could be almost six and a half times as great as a competitor who is placed in a more favourable position so far as negotiation is

concerned. Now, so far as I am concerned, I think the way of arriving at this maximum rate must be absolutely unrealistic and under the circumstances I would have to support the motion. If it does not pass, I think, when we get to that portion of the bill, we should give some attention to amendments that would at least do something about the maximum rate formula.

Mr. SCHREYER: Mr. Chairman, I was here when the Minister spoke in reply to the motion. I cannot say—I wish I could—that his argument was convincing. The data he gave us, showing at the present time the differential between maximum rates allowed and actual negotiated rates, is so large as to make one wonder just what useful purpose it serves. It seems to be a case of the present maximum rates being divorced from reality. I surely would not want to be a party to transferring this kind of maximum rate control to the new legislation. That is why it seems to me the committee simply has to have the kind of information that Mr. Olson has asked for in his motion.

There is an alternative which I mentioned last Thursday. If the committee feels that it simply is not right or proper to demand this information then the committee really has no choice but to report this legislation back to Parliament without any comment on the efficacy of the maximum rate control under the new bill. How can we make an evaluation when a lot of pertinent information is kept from us.

The CHAIRMAN: But Mr. Schreyer, you are reporting back the bill itself after clause by clause study. You are not making recommendations back to the House.

Mr. SCHREYER: Well an important feature of the bill has to do with maximum rate control provisions and we are not in a position to make any evaluation, so when we report back we would have to say that we could not come to any definitive conclusion.

The CHAIRMAN: Well, you cannot say that because there is a vote on each clause, Mr. Schreyer. It is either defeated or it is carried.

Mr. SCHREYER: Well I do not see how we can vote at the present time.

The CHAIRMAN: Our procedure is to vote on it, clause by clause. It is either defeated or carried. This is how we are dealing with this bill.

Mr. SCHREYER: Well, that is a fine kettle of fish, Mr. Chairman.

The CHAIRMAN: I am pointing out to you, Mr. Schreyer, that that is the procedure of the committee. We have no other way of dealing with it.

Mr. SCHREYER: And I am saying, Mr. Chairman, that I for one would have to vote against it.

The CHAIRMAN: That is your privilege but I am just pointing out to you the procedure in this committee, what we have to do to bring this bill back to the house.

Mr. SCHREYER: But I want to go further than that, Mr. Chairman. I do not see how any other member of this committee could vote on the clauses.

The CHAIRMAN: Let us get to the motion, Mr. Schreyer, and your reasons for supporting it rather than how we deal with the procedure. We are governed by the rules of the house and the committee on that matter.

Mr. SCHREYER: Mr. Chairman, on Thursday last I spoke at some length in support of the motion, and the motion before us now is essentially the same. Therefore, I will not take the time of the committee to repeat what I said at that time. I simply conclude by saying that if we are to do our job properly here we must have this information. The argument that there is some proprietary interest or right here that we should not violate does not stand up against the argument that the public interest must be protected by us to the fullest extent possible. We cannot honestly say that unless we have had this information brought before us.

The CHAIRMAN: Thank you, Mr. Schreyer. Mr. Olson has the right to speak again if he wishes. I am going to close off and call the vote after Mr. Olson speaks.

Mr. OLSON: Mr. Chairman, in closing the debate I would just like to make a brief comment on the minister's reasons for suggesting that it would not be in the public interest to pass this information. I believe he said that it would enhance the competitive position of the shippers, not necessarily the competition in so far as modes of shipping is concerned, and therefore, that the C.P.R. and the C.N.R. and all of the railways would be in a less favourable position respecting the negotiations with their customers.

He also suggested that it would be unfair to ask the railroads to provide this information unless all forms of transportation were required to provide all their costs all the time.

Mr. Chairman, we are only talking about maximum rate control. It is as simple as that. That is all clause 336 involves. Then the minister goes on to suggest that the present maximum control is an indication that there is no one going to fall into this category of being a captive shipper so that he can apply for the application of maximum control.

Mr. PICKERSGILL: I know you do not want to be unfair with me. I did not say that there was no one. I took the trouble to look up, the particular examples you gave, and I found that none was paying the maximum rate. I did not say that there were no people who were.

Mr. OLSON: All right.

Mr. PICKERSGILL: As a matter of fact, I have been trying to find somebody who is likely to.

Mr. OLSON: All right, I will accept that qualification but we get back to what the minister just said now, that he has been trying very hard to find someone and he cannot. The President of the CPR, and I think even some of the CNR officials, said that they could not think of anyone who was going to be in a position to use this maximum rate formula and therefore, they did not want it.

They keep bringing up this ghost of the present maximum rate. Mr. Chairman, I suggest that these present maximum rates which, by the way, will be abolished anyway with the passage of this bill, have no relationship to reality whatever. I knew about some of the figures that the minister gave us. There are some others on coal, but 45 cents, the actual rate, as opposed to \$2.99 as the maximum rate, has nothing to do with this. You cannot consider that to be a realistic maximum rate. I would presume that this 45 cents would indicate that the variable cost for moving potash from Esterhazy to Vancouver would have to be something below 45 cents; otherwise, the railroads, I suppose, would

not have agreed to that rate. That means then that these present maximum rates have nothing to do with reality and I would hope that we can get past this stage where they regard a captive shipper as being only a shipper who is now compelled to pay maximum rates because it is completely divorced from the reality of this situation.

Mr. PICKERSGILL: Once again, I never said that. All I said was I could not imagine that anybody who was not now paying the maximum rates would be likely to ask to be a captive shipper. That is all.

Mr. OLSON: I do not want to take a lot of time.

Mr. PICKERSGILL: I do not either.

Mr. OLSON: I could read chapter and verse from the telegrams that the minister admits he wrote.

The CHAIRMAN: But not right now, Mr. Olson.

Mr. OLSON: No, I am not going to do it, but I could read chapter and verse of these telegrams that the minister admits he wrote, signed by the Prime Minister in some cases, to the effect that they were trying to equate captive shippers to those shippers that are now paying maximum rates.

Mr. Chairman, we may have to take that much more time but there has always been an attempted equation between this so-called class rate and captive shipper. The maximum rates that now have been indicated by the minister to us and what is actually being paid, I think, makes this argument ridiculous. However, what this committee needs is the factors that will go into the formula, if and when the transport commission apply maximum rates control. It is as simple as that. The transport commission cannot change the law; all they can do is apply the law. All I am saying is that we need some samples so that we can have some idea of what will happen when the transport commission does, in fact, apply the law.

I want to say this in closing, that this bill will remove the maximum rates that are now in effect; we do not know what they are going to be. We have no idea unless we can get all the factors in the formula. If clause 336 is as useless as the spokesmen for the railways say, and I think the minister intimated this too, that it is not going to apply to scarcely anybody—he cannot find or think of anyone who is going to attempt to invoke the provisions of 336—then, Mr. Chairman, this committee should strike it out of the bill and say honestly to the Canadian people that from the date this bill passes there is no practical protection under the law in so far as a shipper is concerned if he fails to reach a negotiation with the railways. Therefore, there is no point, Mr. Chairman, in having this included if it is of no value. I think, if it is going to be of any practical value, that this committee ought to know what the end result will be of the calculation using this formula.

Now, I thought I heard Mr. Stafford say that Mr. Olson should be analyzed.

The CHAIRMAN: Order. Mr. Olson, I do not want a cross fire at this time. Perhaps you might just close off the debate on your motion rather than counteracting arguments.

Mr. OLSON: Yes, I will but these are the arguments that were brought up in the debate on the motion. I think the reason for the mover having the right to make the final speech is to sum this up.

The CHAIRMAN: I do not want to reopen the whole matter again, because I will have to call on others.

Mr. OLSON: That is right, but the suggestion has been made that it would be a waste of time for this committee to have any of these variable costs because they probably would not know how to analyze them effectively. I will guarantee any member of this committee that if we can get some of these variable costs we will have them analyzed by very competent cost analysts who are familiar with the railway industry so that we will have a calculation by these very competent people which will give us the end result of what the maximum rate would be under the formula.

So, Mr. Chairman, I think it is essential; I think we would be almost derelict in our duty and certainly irresponsible, if we could not go back to parliament with this bill and say to them that we have examined all the clauses, including 336, to the point where we know what the effect of applying all clauses, including 336, would be, and say that we think it is in the public interest. We cannot do that, Mr. Chairman, unless we have all the factors and the formula to make these calculations.

The CHAIRMAN: Thank you, Mr. Olson. Are you ready for the question? All those in favour of the motion please signify by raising your hand. Those opposed? I declare the motion lost.

I have another motion here that I want to bring to the Committee's attention. We did pass a motion to engage the services of an economist, and now we want a motion—and I will read it—that the Committee be authorized to engage the services of an economist to assist in its deliberations on Bill No. C-231 and that he be paid a per diem allowance of \$150 subject to the approval of Mr. Speaker. This rate has been checked through with the department and it seems to be a reasonable rate. Do I have a mover?

Mr. LESSARD: I so move.

Mr. ROCK: I second the motion.

Mr. OLSON: I was in favour of this motion up until the last few minutes, but I cannot see any point in hiring a cost analyst if we are not going to give him some information to work on.

The CHAIRMAN: Well, I will put the question.

Mr. HORNER (*Acadia*): Mr. Chairman, before I speak on the motion I would hope the mover or the seconder would speak on it.

The CHAIRMAN: Mr. Horner, there was a lengthy debate on this matter. We are only moving to pay him \$150, and that is all. We have already approved the hiring of this economist; it is a matter of setting the per diem rate, and that is all. Any debate will be only as to the amount that we are to pay him, because we have already carried the motion that he was to be hired.

Mr. SCHREYER: Mr. Chairman, since the time we discussed whether or not to hire an economist, the circumstances have changed. We find out now, just in the last minute or two, that there really will be very little data for this economist to analyze. So the question is pertinent. What point is there, at this stage to hire one?

The CHAIRMAN: Suppose we just put the motion for a vote.

Mr. ROCK: I am withdrawing as the seconder of that motion because I really never was in favour of it in the first place.

The CHAIRMAN: Is there a seconder for the motion moved by Mr. Lessard? If there are no seconds, we do not hire the economist.

Mr. HORNER (*Acadia*): Mr. Chairman, on a point of order. I thought in the afternoons we sat after Orders of the Day, and this is why I was late today.

The CHAIRMAN: Well, Mr. Horner, the notice said 3.30.

Mr. HORNER (*Acadia*): But we have sat only after Orders of the Day, if I remember correctly.

The CHAIRMAN: I agree. I came here at 3.30—let me put it to you that way—and when there was a quorum here and the witnesses were present I had to call the meeting to order—and it was not at 3.30 that the quorum was here. We do have authority to sit while the House is sitting.

Mr. HORNER (*Acadia*): What I want to know is what the procedure will be in the future. Whether or not the Orders of the Day are completed, the Committee is going to sit at 3.30; is that correct?

The CHAIRMAN: It has always been after Orders of the Day, but I came here at 3.30 and there was a quorum here around 3.45 so I had to call the meeting to order.

Mr. DEACHMAN: Mr. Chairman, every notice that goes out for Committee proceedings in the afternoon are set now at 3.30, and the general understanding all along has been that that means 3.30 or after the Orders of the Day, so if as was the circumstance today you were able to get a quorum at 3.30—

The CHAIRMAN: Yes, I have already ruled on that, Mr. Deachman. Order, please. We will adjourn until Thursday, when the National Farmers Union is to be here. We had set 9.30, but I think, under the circumstances, perhaps it would be better to sit at 10.30 on Thursday morning when representatives from the National Farmers Union will be here.

Mr. BOULANGER: Mr. Chairman, on a point of order, may I draw to your attention, that this committee was deprived of the services of the interpreters today. It is the principle that is involved here. It is necessary that we have this service at all times. I do not complain for myself because I have sufficient English to understand, although I did lose a good part of it because it is so difficult.

The CHAIRMAN: Mr. Boulanger, we are sorry, but it is the first time there has not been an interpreter.

Mr. BOULANGER: Let me finish my point of order, Mr. Chairman. I am just trying to say that if I did not participate or ask any questions it was because I was afraid I would misunderstand some point of argument. I know it is not your fault, Mr. Chairman, but I want you to make sure that the staff is provided to do it.

The CHAIRMAN: Mr. Boulanger, your point is well taken. I did not even notice. I assumed an interpreter was there at all times. This is the first time that we did not have one. We will take care of it.

APPENDIX A-15

DOMINION MARINE ASSOCIATION

Representing Canada's Inland Waters and Coastal Shipping Fleet

October 24th, 1966

Clerk of the Committee,
Standing Committee on Transport and Communications,
Room 487,
House of Commons,
Ottawa, Canada.

Dear Sir:

Re: Bill C-231—"National Transportation Act"

Dominion Marine Association consists of the principal Canadian ship owners trading in Canada's inland and Eastern coastal waters. The combined fleet of the 23 company members comprising the Association includes approximately 200 vessels with a total capacity of 2,300,000 tons and a replacement value at current costs in excess of one billion dollars.

The Association participated in the proceedings before the MacPherson Commission and has followed with interest subsequent developments culminating in the introduction of Bill C-231.

Dominion Marine Association agrees with the principle of the Bill in so far as it applies to the shipping industry.

We have for some time past been endeavouring to persuade the Government to reconstitute the Canadian Maritime Commission to enable it to carry out effectively the role envisioned for it by Parliament in 1947. Although the Canadian Maritime Commission at the early stages of its development showed promise of making a real contribution to the welfare of the Canadian merchant marine, the early promise has not materialized, in recent years, along the lines intended by Parliament. In fact during the past few years the Commission, for reasons which we have not fully understood, has been largely ineffective.

Our first reaction to the principle of Bill C-231 was that there would be a very real danger that the shipping industry might suffer as a result of having its policies and interests submerged in a monolithic structure such as a Canadian Transport Association, bearing in mind the traditional approach of Canadian governments, which has been, by and large, to regard the interests of the shipping industry as matters of secondary concern. Canadian governments have throughout our short history demonstrated a marked degree of inconsistency in dealing with Canadian shipping. We have gone through periods of vision and creative planning (prominent among which was the creation of the Canadian Maritime Commission in 1947) but more often we have experienced, in practice, neglect and indifference.

Upon more mature consideration of the policy involved in the Bill we have come to the conclusion that we have much to gain and very little to lose through the creation of a comprehensive Canadian Transport Commission which will be in a position to compare the significance and requirements of the various

media of transportation in this country. We are therefore in favour of the principle of the Bill.

One of the problems that we encounter, which we conceive will be given objective and careful consideration by the proposed Commission, is the problem of Seaway tolls. We think we have a good case for the outright abolition of tolls on the basis of the principles expressed by the MacPherson Commission and the principles expressed in the preamble to Bill C-231. Up to this point there have been clear indications that the validity of our case for abolition of Seaway tolls has been obscured in authoritative circles by partisan, regional and even alien interests. We feel that a sophisticated consideration of the matter by a comprehensive body such as the proposed Commission will enable the validity of our case to emerge unobscured by irrelevant factors. This is but one of the many problems encountered by this industry which we look forward to having considered by a forum of the stature of the proposed Commission.

May we add one note of caution, although I am aware that this is a matter over which your Committee has no immediate jurisdiction. This is the vital question of the calibre and qualifications of the officials who will comprise the Commission and its Committees. The success or failure of the project will depend in large measure upon the competence of these executives and the adequacy of their supporting staff. With this in mind we would strongly urge that when the "Water Transport Committee" is established under Section 17 of the Bill, there be included in it, in addition to economists and other indispensable constituents, executives at a high level who are knowledgeable in the general working of the shipping industry and the problems connected therewith.

It would be appreciated if you would include this letter in the records of proceedings of the Committee.

Yours very truly,

Philip Huncomb

APPENDIX A-16

VANCOUVER BOARD OF TRADE

OCTOBER 20, 1966.

File 13.1

Gentlemen:

R: Bill C-231

We are gratified to note that many of the provisions of the proposed National Transportation Act (Bill C-231) are in agreement with recommendations previously submitted by the Vancouver Board of Trade to the Minister of Transport and to the Royal Commission on Transportation. However, we wish to draw to your attention some matters which we feel should receive further consideration by your Committee:

1. Overall Authority

We agree that there should be an overall authority encompassing previous Acts governing various phases of transportation. However, we urge that the proposed Canadian Transport Commission does not develop the levels of bureaucratic controls as has happened in the regulations of interstate commerce in the U.S.A.

2. Unjust Discrimination

The principle of "no unjust discrimination", i.e., that all shippers be treated the same under similar terms and conditions, has been deleted in the proposed Act. We recommend strongly that it be included.

3. Export Grain Rates

We have previously recommended that export grain rates should not be a burden on other traffic. We are disappointed and concerned that no immediate steps are being taken to rectify this situation. However, we note that these rates will be reviewed within three years.

4. Appeals (Section 17 (4))

We urge that there be included in the Act provision for appeal beyond the Canadian Transport Commission.

In addition, we would appreciate receiving clarification of the following portions of the proposed Act:

1. Maximum Rates for Captive Shippers (Section 53, amending Section 336 (1) of Railway Act)

Can you provide us with the reasons why 150% of variable costs was set as the basis for maximum rates?

2. Piggyback Service (Section 45 (3) adding subsection (9) to Section 319 of the Railway Act)

Does this section refer to transactions only with "For hire" carriers, leaving the railways free to deal on an individual basis with private carriers who transport only their own goods, i.e. provide for the treating of private carriers differently to public carriers?

3. *Approval of tariffs* (Section 34)

We assume that the reference to approval being required for free or reduced rates covers only individual exceptions to published tariffs and does not refer to authority being required for normal tariff reductions which are put into effect immediately before they are published. May we please have confirmation of our understanding?

We appreciate this opportunity to present our views concerning this proposed legislation. It is hoped they will receive your favourable consideration.

Respectfully submitted,

Reg. T. Rose,
General Manager.

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